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International

* Fears Concerning Reduced Foreign Trade Surplus

902A0165A Tokyo GEKKAN KORON in Japanese May 90 p 4—FOR OFFICIAL USE ONLY

[Article by Taiyo Kobe Mitsui Bank president, Kenichi Suematsu]

[Text] The tense relationship between the East and West camps led by the Soviet Union and the United States respectively has been substantially relaxed since the end of the Reagan administration, and economic reconstruction of the Soviet Union and Eastern Europe extending to drastic remedies including systemic reform.

Such a situation must be a welcome direction for Japan, not to mention the countries of the European Continent, compared with the time, for example, when the Cold War was growing more and more intense.

However, with respect to the questions of whether or not the Soviet Union, a multinational country, can maintain its current federation system, and when the mechanism of the market economy introduced in Eastern European countries can be expected to produce concrete results, or what the influence of these on the situation in Asia will be, there still remain many unknowns that are unpredictable.

The epoch-making unity of the EC in 1992 is currently invigorating the European Continent because of an investment boom by companies aiming to establish bases in the area. However, in addition to the fear that the problem of the unification of East and West Germany will bring about complications, looking at the long term, it is doubtful that this will be a primary factor in facilitating the overall growth of the world economy as the EC autorities, predictably, said it would be.

Today when I feel as though the postwar framework of the world is falling to pieces with a crash every time I watch TV for even a few minutes, I cannot help thinking that the frame of reference of business management is also swaying significantly.

Now, when attention is turned to the domestic situation, the financial and capital markets have been considerably agitated these days. Stock prices in mid-March were at the same level as a year ago, the yen against the dollar was back to the rate of two and a half years ago, and the yield to maturity of long-term government bonds was back to that of six years ago.

The low price of crude oil, weak dollars and low interest rates, which have been behind the big business boom, are now all reversed, and there must be some growing apprehension about future business trends.

The outcome of the Japan-U.S. Structural Impediments Initiative talks and the Budgetary Discussion are also of great concern.

However, what I am somewhat worried about, looking ahead at the decade of the 1990's, is the fact that the Japanese current account balance surplus is rapidly declining these days.

The size of the current account surplus relative to GNP was 4.6 percent four years ago at its peak, but it is said that it was down to 1.4 percent in October through December of last year.

Japan has been consistently taking all necessary measures aimed at constricting the foreign trade surplus starting from the Japan-U.S. Currency Committee in 1984 through the Plaza Accord and the Louvre Accord in 1985 and thereafter.

Be that as it may, there is no doubt that it is now starting to produce a noticeable effect, but should we really continue to make efforts to further reduce the surplus from now on?

These days some journalists overseas say that the Japanese surplus will vanish into thin air within a few years without further pressure because of a rapid increase in the elderly population and its related increase in welfare expenses, as will as a rising tendency toward consumption by the younger generation as seen in a craze for overseas traveling.

They say that the Japanese foreign trade surplus is nothing but a temporary phenomenon just as was the case of the OPEC countries during the oil crisis.

Japan was the only country which, with a small burden in military expenses, increased its surplus during the hard Cold War era. However, my feelings these days are that I cannot say that Japan, which has finally started to have a voice in the international community, will not be returned to the position of being a small exotic country in the Far East, if it loses its surplus when the military expenses of the two superpowers of the East and West are reduced as a result of detente.

Editorial Urges Easing Cocom Restrictions

OW1506131990 Tokyo MAINICHI DAILY NEWS in English 12 Jun 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Easing COCOM Restrictions"]

[Text] As the storm of democratization sweeps through the Soviet Union and the countries of Eastern Europe, should the West boost its economic aid to them, or should severe export controls on strategic commodities be continued? At the two-day meeting of COCOM (Coordinating Committee for Export Control) held recently in Paris, a wide-ranging policy for easing export restrictions was agreed upon.

COCOM made its start in 1949, with the participation of 17 major countries of the West, to check the flow to communist countries of highly advanced technology and products that could be used for increasing their military strength.

With the relaxation of East-West tension, however, yesterday's enemy is ceasing to be today's foe. Following the crumbling of the Berlin Wall in November last year, the need arose for COCOM to undergo a change. The comprehensive restudy conducted this time was only to be expected.

This does not mean that COCOM will cease to exist. Although there was a divergence of views among the participating countries as to the speed and scope of relaxing control on the export of strategic commodities to the countries of Eastern Europe, none was against the continued existence of COCOM itself.

American President George Bush and top leaders of the West want to provide economic aid to Soviet President Mikhail Gorbachev. At the same time, there is no one who can guarantee Gorbachev's position. The strong influence of the military still exists in the Soviet Union, while the fact that the USSR is a military superpower, in the same way as the United States, remains unchanged.

As the Soviet Union carries out disarmament through talks with the U.S., it would not be strange if a qualitative improvement of the remaining armaments were sought. In such a case, what the Soviet Union needs, above all, is technology from the West. The COCOM decision this time clearly showed the doubts that remain within the countries of the West.

The three fields targeted by COCOM are: (1) weapons, (2) nuclear power, and (3) industry. The decision this time concentrated on the industrial sector. From the present industrial list of 116 items whose export is banned, 38 will be excluded. The three fields of computers, machine tools and communications equipment are the main pillars.

As a result, while the export of personal computers up to 16 bits only was allowed up to now, this will be increased to 32 bits. In the case of communication equipment, digital switchboards, whose export had been banned, will be permitted up to 512 circuits. The export of machine tools with greater precision than in the past will become possible. All this is good news for the Soviet Union and Eastern Europe where the telephone service is bad and machines in factories are outmoded.

Attention is also drawn by the fact that for East Germany, whose economic union with West Germany is scheduled to take place in July, the various countries will be able to export freely except for 16 items of a highly strategic nature.

In addition, for Hungary, Poland and Czechoslovakia, the three countries where democratization is advancing the most rapidly, controls will be eased further, in accordance with applications and on the condition that technology will not be diverted elsewhere but will be used to improve the people's livelihood. A distinction has thus been made with the Soviet Union, which still poses a latent military threat, but the problem is how far diversion to other countries can be prevented.

It is reported that COCOM intends to reduce the present banned industrial list to less than one-third before the end of the year. Active economic exchanges that will enable the countries of the East to carry out economic reforms and firmly establish democracy will have the benefit of reducing tension and the threat of war.

Government To Issue Foreign Investment Policy

OW1906084390 Tokyo NIHON KEIZAI SHIMBUN in Japanese 18 Jun 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] The government plans to announce its foreign investment promotion policy aimed at encouraging foreign businesses' direct investment in Japan. Foreign firms doing business in Japan will be treated the same as local firms (under a principle of not discriminating against foreign nationals from local nationals).

The Japan-U.S. Structural Impediment Initiatives [SII] talks and the ministerial talks of the Japan-EC Commission have pointed to an imbalance in foreign investments between Japan and Europe and between Japan and the United States. The government apparently has decided that it needs to avoid frictions over investments, by announcing its position of welcoming foreign investments in Japan. As a way of promoting investments, according to the policy, the Foreign Exchange and Trade Control Law will be revised to enable investment applications to be approved on the day of application. Extending of low-interest loans to foreign-invested firms will be another part of the policy.

The government is yet to decide on how to make this announcement. The government might attach this as a related statement to the final report for the fifth SII talks, or might include this in prime minister'a speech to be delivered at the same time the report is made public.

In the announcement, the government will set forth the principle of not discriminating against foreign firms from local firms and thus treating foreign firms as it does local firms regarding taxation or provision of subsidies. By affirming that foreign investments in Japan will benefit both Japan and investing nations, the government will make clear its stand of welcoming foreign investments in Japan.

The government will reveal its plan to revise the Foreign Exchange Law in such a way as to encourage investments in Japan so that, for instance, applications for direct investments, except for certain business categories, may be approved on the same day the applications are submitted. It will declare that loans from Japan Development Bank and Hokkaido Tohoku Developoment Fund at low-interest rates will be extended to foreign-invested businesses too and that government operations to provide necessary information on investments in Japan will be strengthened. The announceement will also encourage sending of investment survey missions to Japan.

The U.S. Government, through the SII talks, has insisted that there are investment impediments in Japan, and has called on Japan to make efforts to remedy the Japan-U.S. investment imbalance situation by encouraging foreign investments in Japan. In the Japan-EC ministerial talks held in Brussels in late May, the EC side also expressed its discontent on the investment imblance existing between Japan and Europe. In face of this situation, the Japanese Government has decided that it should hasten with measures to encourage foreign investments in Japan, and thus prevent the friction over investments from becoming too fierce as was the friction over trade.

New International Order in Asia Viewed

OW1606123690 Tokyo THE DAILY YOMIURI in English 15 Jun 90 p 3—FOR OFFICIAL USE ONLY

["Behind the Secenes" column by Minoru Hirano: "Will China Tame Pyongyang?"]

[Text] The San Francisco summit between Soviet Prosident Mikhail Gorbachev and South Korean Prosident No Tae-u mediated by the United States, signaled the extension of U.S.-Soviet detente from Europe to Asia.

Many people think it strange that neither Japan nor China is taking part in spadework for peace on the Korean peninsula and say that an improvement in Japan-China relations is necessary to terminate the Cold War in this part of the world.

Undoubtedly, North Korea holds one of the keys.

Relations between North Korea and Vietnam, two of three Asian communist countries defending one-party dictatorships and planned economies, have recently soured while ties between Vietnam and South Korea are improving. Sixteen South Korean companies attended a trade fair in Ho Chi Minh City from late April to early May, and concluded contracts worth $50 million.

Additionally, a Vietnamese trade mission is scheduled to visit South Korea in July, when the two countries plan to open trade offices in Hanoi and Seoul. A Vietnamese Foreign Ministry official said last week that Vietnam was ready to normalize relations with South Korea.

China also has begun to distance itself from North Korea. Two-way trade between China and South Korea in 1989 totaled $3 billion, six times as much as trade between the Soviet Union and South Korea. China is to receive materials and know-how from South Korea, host of the 1988 Olympics, for the Asian Games to be held in Beijing this September.

However, relations between North Korea and China grew closer after Pyongyang expressed firm support for China's actions at Tiananmen Square. During a visit to Beijing in December, North Korean President Kim Il-Song reportedly told China's strongman Deng Xiaoping that North Korea would have to "act" if it appeared South Korea was about to be admitted to the United Nations, implying the possible use of military force. He also asked that China veto South Korea's bid for U.N. membership.

Since the second half of the 1960s, North Korea, in order to ensure internal unity, has seized every occasion to claim that the "U.S. imperialists and their puppets, the South Korean forces," would move north. North Korea has to create tension on the Korean peninsula to distract its people's attention from the isolation of North Korea.

A nightmare to Japan is the possible arrival of waves of Korean refugees. To prevent such a situation, Prime Minister Toshiki Kaifu agreed with No during the recent Tokyo talks not to isolate North Korea. The United States and the Soviet Union also agree. South Korea therefore has decided not to independently maneuver for membership in the United Nations this year. Gorbacahev is also taking pains not to provoke North Korea.

However, China seems to be the only country that can prevent North Korea from going overboard. During the Korean War in the early 1950s, China sent troops to help North Korea. On the eve of the fall of Saigon in the spring of 1975, Kim Il-Song led a large military delegation to Beijing. He asked for Chinese consent to a southward advance, but acceded to China's objections.

Successive Japanese prime ministers, in visits to China, obtained Chinese guarantees that North Korea would not invade South Korea.

Unfortunately, Japan-China relations remain sour, as the Foreign Ministry has not yet lifted the ban on yen loans to China for fear of inviting U.S. displeasure. As a result, Japan cannot exchange views with the Chinese Government over the new situation on the Korean peninsula.

Former Japanese Ambassador to China Yosuke Nakae, saying that the new world order should not be determined only by the United States and the Soviet Union, asked the Foreign Ministry to carve out an independent foreign policy.

Pipeline May Improve Multinational Ties

OW1706234490 Tokyo ASAHI EVENING NEWS in English 15 Jun 90—FOR OFFICIAL USE ONLY

["Economic Globe: column by senior writer Yoichi Funabashi: "Threading the Diplomatic Needle—USSR to Japan Pipelines May Warm Multinational Ties"]

[Text] A plan is taking shape with the cooperation of the United States, the Soviet Union, Japan and South Korea to lay a giant natural gas pipeline. It would extend from Yakutsk in the Soviet Union through Khabarovsk, Vladivostok, North Korea and South Korea, plunge into the Tsushima Strait at Pusan, emerge at Kita-Kyushu, and continue on overland to Tokyo.

The plan envisages a total pipeline lengtyh of 6,250 kilometers, with the capacity to carry 42 billion cubic meters of natural gas per year, equivalent to about 30 million tons of liquid natural gas (LNG). This is on the same scale as the entire yearly demand for LNG in Japan. It would begin to show a profit at a volume of 8.5 million tons per year, and the price would be 30 percent lower than what Japanese are now paying for LNG.

The United States would furnish well-digging technology and equipment, and Japan and South Korea would receive a supply of gas. North Korea, which is troubled by inadequate supplies of electricity, would be supplied with gas as payment for transit fees. The Soviets would receive what it needs above all else, hard currency.

The fast-running meltoff in Europe from the U.S.-Soviet agreements marking the end of the cold war is finding its echo in a trickle of changes in the East and Northeast Asia: the normalization of relations between South Korea and the USSR, overtures of North Korea toward the United States, and President Gorbachev's visit next year to Japan. This project is just another harbinger of the change of eras.

The proposal has been nurtured and sustained for over a decade by American lawyer John P. Sears. He worked out the details with the help of authorities from the petroleum industry in Texas. A seasoned ally of the Republican Party, Sears was originally a crony of President Nixon. He also served as campaign adviser during Ronald Reagan's original candidacy for president, participating in the writing of the original draft of the so-called "Reagan revolution."

The partner Sears chose as his concept began to mature was a veteran Japanese international businessman, Takeshi Uebayashi. Uebayashi is president of Tokyo Trading. The two went to Moscow for the first time in January last year and described their plan to the authorities there. Their efforts in the last year and a half has paid off in the form of a recent visit by Soviet representatives, headed by First Vice Chairman Ratnik Marculov of the First Fuel and Energy Complex Bureau, to Korea and Japan. They conferred with top class management of the Hyundai Group in Korea and a group of Liberal-Democratic Party Dietmen headed by Shintaro Abe.

Japanese plans for resource development in Siberia, especially for petroleum and natural gas, have been a nearly continuous series of unadorned failures. There is no guarantee that this plan will not follow the same path.

First, there are potential problems with ultimate estimates for demand and with the necessary coordination between the various parties being supplied. One of MITI's (Ministry of International Trade and Industry) representatives who met with the Soviet delegation brought the discussion back down to earth when he pointed out that all of Japan's LNG needs are supplied until the end of the century. Alaskan development of the giant local fields was also carried out with an eye specifically to sales in Japan, and competition between the two suppliers cannot be avoided. It is all too possible that the buyers, on different sides of national borders, will find themselves out of step with each other. Environmental considerations may also delay construction of parts of the pipeline.

Or, the winds of international politics could begin blowing cold again. The American government has privately sent Sears signals of support, but the question remains of the USSR's ability to bring North Korea into the fold. And of course, the USSR faces its own internal dissension.

Relations between the United States and Europe at the beginning of the 1980's were soured by the building of the pipeline from the Soviet Union because of American fears of a Soviet foot upon the energy lifeline to Europe. However, the pipeline has become a network symbolizing peace and mutual dependence.

Originally, Chinese participation was envisaged as part of the plan. This was dropped after the Tiananmen Square incident. Still, Sears told reporters when he came to Japan to join the Soviet democratization and can be accepted back into international society, the partners would immediately welcome their participation. [sentence as published]

Chinese participation would represent a leap forward in political progress comensurate with the grand scale of the project. A Far Eastern version of "two plus four" (the Korean Peninsula, America, Japan, the USSR and China) would be born. In any event, the project may begin a thaw in Far Eastern politics that would melt even the Siberian tundra.

Castro Requests Intermediary for Bush Talks

OW2006121190 Tokyo ASAHI SHIMBUN in Japanese 20 Jun 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Cuban President Castro is expected to attend the Emperor's accession ceremony scheduled for 12 November, and it was disclosed on 19 June that he had unofficially asked the Japanese Government to act as intermediary so that, during his visit here, he could have talks with President Bush on improving relations with the United States, if only President Bush would also be visiting Japan then. This was disclosed by several persons connected with the Government and the Liberal Democratic Party [LDP]. Taking this request as "an indication that there are signs of vital changes in Cuba, which has been isolated, together with the DPRK (North Korea), from the international community, while detente is developing between the East and West," (according to a leading Foreign Ministry official), the Government has started sounding out the intent of the U.S. side.

Cuba broke diplomatic relations with the United States in 1961. In this connection, if the summit talks were realized, it is observed that it would contribute greatly to the stability in Central and South America. However, with the elections scheduled for this fall, it is reported that the United States "is taking a negative position under the current situation" (according to a government source). Moreover, the decision has not been made on President Bush's attendance at the Emperor's accession ceremony.

Due to various incidents, such as the invasion of Panama (last December) by the Bush administration, the start of "anti-Castro" broadcasting (last March), and the military exercises conducted in the Caribbean Sea, tension has continued between Cuba and the United States. Meanwhile, Japan recognized the Castro regime in 1959, and Cuba has clearly attached great importance to its relations with Japan by sending Fernandez, vice president of the Council of Ministers, to attend the State Funeral for Emperor Showa, held in February last year.

According to an LDP leader, when the Government recently requested Cuba to send its representative to attend the Emperor's accession ceremony which will be held soon, the Cuban Government has unofficially indicated President Castro's intention to visit Japan. At the same time, the Cubans have indicated that Castro would like to hold talks with President Bush during his visit here, and requested Japan act as an intermediary.

Expecting that the U.S.-Cuban summit talks "would be desirable because they might make international contributions suitable for this peaceful age in which tension is being eased at the global level" (according to a government source), the Government has unofficially sounded out the intent of the U.S. side. However, it is reported that the U.S. has indicated reluctance because "with the elections just around the corner, it would not be wise to do so, since such an action could be strongly suspect as an act of weak-kneed diplomacy." Therefore, under the current situation, conditions have not been created yet for making actual preparations for their summit talks.

* Public Reaction to SII Interim Reports

* Government Should Lead

902B0106A Tokyo TOKYO SHIMBUN in Japanese 7 Apr 90 p 5—FOR OFFICIAL USE ONLY

[Roundtable discussion by specialists from government and industry; participants (in no special order): Keijiro Murata, deputy director, LDP (Liberal Democratic Party) Special Committee on Economic Adjustment, and former minister for international trade and industry; Yoshio Okawara, special adviser to the Federation of Economic Organizations (Keidanren), Ministry of Foreign Affairs, and former ambassador to the United States; Ryuzaburo Kaku, chairman, Canon, Inc.; Kuniko Iguchi, Sophia University professor (international politics); Moderator: Takeshi Sato, director, Editorial Bureau, TOKYO SHIMBUN]

[Text] [Boxed item] The main focus of the SII (Structural Impediment Initiatives) talks, the interim report, was born after a difficult labor. This interim report, whether it touches upon distribution problems or public investment problems, has the implications of a "Project for Remodeling Japan." There are some aspects of the report in which demands made by the United States could be interpreted as "external pressure." However, since, on the whole, there are many aspects which could benefit the consumers of our nation, there is now an atmosphere in which we can proceed with the remodeling of Japan. There is opposition from partisan Diet members, whose interests are at stake, and from bureaucrats and, in some ways, these seem more like "Japan-Japan Structural Impediment Initiatives" than "Japan-U.S. Structural Impediment Initiatives." I would like to focus this discussion on your evaluations of the talks, and your opinions on how Japan and the United States should proceed as we approach the issuance of the final report, which is to take place in July. (Excerpt from Takeshi Sato's greeting) [end boxed item]

Evaluation of the Interim Report

Sato: First of all, what is your opinion of the interim report?

Murata: I think that the case which Japan presented was rather well received. We were able to make a soft landing on the matter of the *Daitenho* (Large-Scale Retail Store Law), and to draw up an overall project for increased public investment, with a view to the 21st century. The Japan side submitted Prime Minister Kaifu's appeal to the government and the ruling party to act as one in helping him to "fulfill Japan's responsibility as a member of the international community." This is something that everyone recognizes. I think that the United States, where mid-term elections are approaching and the political situation is strained, gave serious thought to the importance of Japan-U.S. relations.

Kaku: I give Prime Minister Kaifu some credit for sending special envoys to the talks. And, I suppose I must also give credit to both the United States and Japan for their handling of the talks. However, what we need is not measures to deal with an emergency situation, but long-range reforms. I view both President Bush and U.S. Trade Representative Hills as moderates (in their attitude toward Japan). It is my feeling that the Bush administration initiated these talks with the intention of restraining the rapidly growing movement within Congress to impose the Super 301 provision (special sanctions against nations with unfair trading practices) and controlled trade on Japan. Therefore, Japan must respond accordingly. We must resist unreasonable demands, but responding to the demands of the Bush administration will benefit our citizens, our consumers. But even if the SII talks go well, I am not so optimistic about what will happen in the two houses of the U.S. Congress. I think that we still have a struggle ahead of us.

Iguchi: I think we must compromise on the *Daitenho* I am reminded of the introduction of the Consumption Tax. Perhaps the favorable, simplified tax incentives offered to small and medium-sized distributors when the consumption tax was introduced were a way of preparing them for sacrifices they would have to make later on. This sort of thing affects the substance of a reform. For instance, the revolution in China brought real benefits to a specific sector—farmers, but the Russian Revolution benefited no one, and therein lies the danger. The reforms in Japan seem to be of the Chinese type. If consumption tax exemptions were devised in anticipation of a revision of the *Daitenho*, that is wonderful. Even if no such strategic considerations were made, that was the result, so they (small and medium-sized distributors) will have to yield.

However, I think that it is difficult for the rest of the world to understand the logic behind the decision to revise the *Daitenho*, rather than to abolish it. If this insistence on retaining the law forces Japan to compromise on substantive issues, then I think that these talks have failed.

Okawara: In the talks with the United States, we were not "A Japan That Can Say 'No,'" but "A Japan That Said 'No' Too Often." First, you say "No," and then, when the other side reacts, you concede one point, then two points and, in the end, you have conceded everything. In my opinion, this is what happened at the SII talks, which I find very disappointing.

Sato: What particular feature did you notice in these latest talks which distinguishes them from previous interchanges on Japan-U.S. economic friction?

Kaku: In April of 1985, when Mr. Murata was minister for international trade and industry, the ministry summoned representatives from 60 leading enterprises to a meeting to discuss promoting imports. That was the first time that I had participated in a meeting of that sort. I remember saying on that occasion that "increasing imports in order to decrease the trade imbalance is only one step in that direction. (Then) Prime Minister Nakasone's campaign in which every citizen was asked to spend $100 on imported products is necessary, but it is a mistake to think that that alone will solve the problem. Japan must make structural revisions." My words certainly cast a pall over the atmosphere. (Forces a laugh.)

For more than 10 years, I have been saying that we have come to a great turning point, comparable to the early days of the Tokugawa Shogunate, or the Meiji Restoration. If Japan does not surmount the difficulties encountered at this turning point, it will be alone in the world. I have come up with a "concept of an ethical nation," and what I mean by that is the awareness that the time has come for us to change our national ideology, and to reshape our systems.

Murata: As the deputy director of the LDP Special Committee on Economic Adjustment—the chairman, in actuality—I have taken up these matters with the party. In the context of sudden political developments, such as the upheavals in Eastern Europe, the unification of the two Germanys, and the reconciliation between the United States and the Soviet Union, the Japan-U.S. SII talks have worldwide significance.

When I was minister for trade and industry, I had great difficulties with automobile and steel problems and, comparing those days and the current situation, the difference is the changed international situation. Since the issue of the arms race has been settled, at least for the time being, the most serious problems facing us now are economic problems, among which are the depreciation of the yen and a decline in stock prices. Japan and the United States must have friendly relations. Japan must make an international contribution, and make sincere efforts to establish purposeful diplomatic policies, or else there will be serious trouble.

Iguchi: Structural changes cannot be accomplished in six months or a year. It is unreasonable to expect to achieve them in time for the final report in July. But, in a world where changes are occurring at such a rapid pace, we cannot keep asking for more time. When I compare Japan's situation to the liberation of Eastern Europe and the destruction of the Berlin wall, I feel that we are out of step.

At this turning point, when the nations of the EC (European Community) are preparing for unification in 1992, here in Japan, we are making a great commotion over the *Daitenho*. This signifies to me that Japan is lagging behind in the current of world trends.

Recently, the nature of cooperation between the leading nations has begun to change significantly. The change is from political cooperation to cooperative reforms. In the past, political cooperation involved maintaining currencies at an appropriate level, and increasing domestic demand, but now we have the added themes of the interlocking of systems, and the affinity of structures.

The problem still remains that these SII talks may not be completely advantageous to Japan, but we have reached a point where short-term cooperation is necessary for long-term benefits to Japan.

Kaku: To cite an example, the ideology in the Tokugawa Era was to establish the Tokugawa clan as the ruling class for all eternity. The politicians and bureaucrats of those times put all their efforts into building systems, and thus made it possible for Tokugawa rule to continue for approximately 250 years. The ideology of the Meiji Restoration was to catch up to and surpass (advanced nations), and systems were established to increase national wealth and military strength, and to increase production and promote industry. In the process, the aspect of increasing military strength got out of control, and we had that disastrous war. But, after the war, in an atmosphere of peace where no thought was given to military expansion, (prosperity) was achieved. Therefore, we must make Japan a nation which can coexist with the rest of the world from a position of leadership.

If we are to have a national ideology which is oriented toward consumers, and if we are to make an international contribution, our most important task is to create systems along those lines.

Measures To Correct the Trade Imbalance

Sato: What do you think would be an effective means of correcting the trade imbalance between Japan and the United States?

Iguchi: At just about the same time as the SII talks were being held, some of the problems in areas to which Super 301 was to be applied were resolved, but I regret that we yielded in a vanguard area like satellites. Japan is a nation with few natural resources. The area where we can make a contribution is technology. We must find ways to reduce the imbalance by focusing on other areas, so that we are not making concessions in the area of advanced technology.

For that purpose, Japan could purchase large amounts of products with high unit prices. Here is my quiz: first, its unit price is high; second, its performance is good; and third, it has to do with everyday life. The answer is "houses."

Okawara: Ms. Iguchi's quiz is very interesting, but the United States is aware of the obstacle which may prevent them from responding to that idea—Japan's soaring land prices. The reaction of the Japanese people is the same and, in some way, the United States may be acting as their spokesman when it voices its dissatisfaction.

The Problems of a Bureaucratic Structure

Sato: In attempts at domestic reform, will our most difficult problem be the bureaucratic structure?

Okawara: Recently, the final report of the Ad Hoc Committee on Administrative Reform was made public. When I read it, I realized how difficult it is to come up with concrete proposals, even if everyone "agrees in principle" about Japan's vertically arranged administration. I think that the members of the committee would have liked to incorporate more decisive proposals, but it is likely that there was resistance from Kasumigaseki [where the central ministries and agencies are located]. This is often called "Nagata-cho logic", and this is a problem involved with the ideal nature of politics, but it will be an enormous task to change the Kasumigaseki structure.

Kaku: I am a corporate executive, and I know that if you give orders to improve quality, nothing will happen. When you change organizations and systems, organize a project, and get talented people involved, then quality improves. The same goes for a nation. Our ministries and government agencies are what they are today because they were established on the principles of "increasing production and promoting industry." Probably the only aspect of the system which is closely connected with everyday life is the Fair Trade Commission. This is a very weak system. We must establish a system where "everyday life comes first."

Japan's Consumer Movements

Sato: Japan's consumer movements are at a loss about the SII talks, and though they should approve of reforms in the *Daitenho*, they have been silent on that subject. Nor have the opposition parties said anything. Our citizens are not reacting in a forward-looking way, and there doesn't seem to be much debate going on.

Okawara: The results of one public opinion survey showed that 70 percent of the Japanese people are in agreement with the demands made by the United States at the SII talks. These demands were made on issues that Japan should have been considering on its own, but Japan's Government could not do that. Consumers think that the demands made by the United States are reasonable. But the consumer movements do not have a firm foundation, so there is no groundswell. The consumer movements are weak.

Iguchi: Japan's social problems have been brought up at the SII talks. Everyone thinks that this is something that the Japanese Government should have done for us.

Sato: But the people seem to be on the sidelines....

Kaku: The Japanese people are the best in the world at following the existing path, and the worst in the world at forging new paths. I think that this is our biggest problem. In the corporate world, there is frequent mention of changing paths, and at my company, this has functioned better than I would have expected. Why is this not possible at the government and administrative levels? The Japanese people have been accustomed to faithfully following their leaders, from the Tokugawa Era, through the Meiji Restoration, to the post-war period. Now, when it is time for changes, and we must change our path, we have no leaders. Our most serious problem is how do deal with this situation.

Iguchi: Just recently, when I visited Europe, I realized that Canon's products, for instance, have truly captured the hearts of European consumers. This is an achievement made possible by Japan's competitive economic environment. But Japan's political environment is not competitive, and the opposition parties are weak, as are the demands of our people. That is why we have lost competitive strength in international politics. It was just mentioned that the people seem to be on the sidelines, and that's just how it is. The demands made on Japan by the United States should have come from the Japanese people, in the first place. Since the people do not make strong demands, our politicians leave things as they are. Criticism of our politicians is widespread, but politicians are a reflection of society....

What Is Expected of Both Nations

Sato: Since interchanges between Japan and the United States revolve around the SII talks and, since it seems that they will continue in that vein, I would like to know your expectations, both of Japan and the United States.

Iguchi: Instead of debating the issue of how much public investment should be increased in proportion to the GNP, there should be an emphasis on problems concerning priorities of everyday life. If these interchanges take on a form which appeals to the American consumer-oriented value system and aesthetics, then they should be more persuasive.

Recently there has been a lot of talk about a book predicting the decline of the Japanese economy, entitled *The Sun Also Sets*, written by British journalist Bill Emmott. No nation can maintain such a prominent degree of strength forever. The example of the OPEC nations, which achieved such great prosperity from oil exports, is a good one for Japan to learn from. Not only did the OPEC nations not use their abundant funds to equip an infrastructure, they also did not give any consideration to international cooperation. On the other hand, Great Britain has developed policies which are socially oriented. For a while, this was referred to as "the British disease" but, to this very day, the British economic foundation has remained stable. The example which Japan should follow is that of a British-type, socialist-oriented society.

Kaku: I find it impossible to agree with some of the American objections. They are demanding that we prohibit the cross-holding of stocks. In the United States there are holding companies, which are not found in Japan. These companies are protected, even without cross-holding. Since we do not have holding companies in Japan, cross-holding is the only preventive method available to us. Our Anti-Monopoly Law, too, differs from the one in effect in the United States. We provide after-market service for durable goods, and we advertise. Despite that fact, they are pushing us toward parallel imports, their only justification being low prices.

Since we have been remiss in doing what we should have done, we are now being asked to do things which we should not have to do. I am against complete liberalization of agricultural products, but it is unreasonable to refuse to import any at all. If Japan's trade surplus were one percent of the GNP, I doubt that there would be a single complaint.

Murata: Former U.S. Secretary of State Kissinger once said that "the problems of U.S.-Japan relations are like sand on the beach. The more you try to deal with them, the worse they get. Look at them in the long-term, with a view toward the 21st century." If we look at them through a microscope, we will unquestionably make mistakes. We need to view them through a telescope. (In that sense), I agree with Mr. Kaku's argument about systems.

(As far as the SII talks are concerned), "revere the emperor and open up our nation" [a variation on "revere the emperor and expel the barbarians," a political slogan which came into being at the end of the Tokugawa Shogunate] should be our motto. The reason that taxation of agricultural land at the same level as residential land, and liberalization of agricultural products are not good ideas is that if we go too far, we will be running against the tide of the times, and end up being just like the *shinsengumi* [literally, the "newly chosen group," a security force consisting of masterless *samurai*, formed in 1863 to quell opposition against the Tokugawa Shogunate]. We must follow the direction taken by the rest of the world, and ride the main current. I think that our ministries and agencies can do a good job of dealing with domestic problems.

Kaku: I am a participant in the export industry. I have been criticized for saying this, but no family ever complains about its breadwinner making good money. The point I am trying to make is that we must find an effective way to use money to build a better infrastructure—a social foundation; and an important aspect of that is the land problem.

Iguchi: The world has become a "society of villages." The ideal arrangement is a horizontal one, and one nation must not be in a position of extreme prominence. We are approaching an age in which economic power has more importance than military power. If the world economy is to be jointly managed in this horizontal arrangement, then any nation which has an excessive trade surplus will be harassed by the entire world.

I feel uneasy about the decline in the value of the yen that is occurring now. Currency has replaced military power as the symbol of national strength. Since currency represents the trust placed in a nation, the decline in the value of the yen is disappointing, from a political point of view.

Okawara: Americans are saying that if they don't do something drastic, then Japan's image will never change. For instance, Japan is viewed as a nation which destroys the environment. Even if we say that we are going to take action on environmental problems, I am not sure that they will take us seriously.

Kaku: Referring to just one problem—the reapportionment of the Diet—when attempts are made to reduce the number by even one person, everything comes to a halt. This type of reform is absolutely unacceptable. We have to scrap everything, and rebuild. If we do not make a decisive change of paths, and quickly, as president Gorbachev of the Soviet Union is doing...(in today's political world), we have no president.

Sato: Japan's presidents (prime ministers) change so often.

Okawara: We have plenty of project directors, though. (Laughs.)

Murata: Japan's politicians really are trying to get things accomplished. In these SII talks, the administrative authorities were active, of course, but the prime minister, the cabinet, and the LDP leadership worked very hard also, especially on the summit conference between prime minister Kaifu and U.S. President Bush. I often hear criticisms like "Japan's economics are first-class, but its politics are third-class." Perhaps we should take these criticisms seriously.

Iguchi: I would like to see our leadership strengthened, within the context of a consultation system on democracy and society.

Okawara: Decisionmaking and implementation. I don't want a dictatorship, but I do want our politicians to demonstrate strong leadership.

* Consumer Benefits

902B0106B Tokyo TOKYO SHIMBUN in Japanese 7 Apr 90 pp 16-17—FOR OFFICIAL USE ONLY

[Text] [Boxed item] The interim report of the Japan-U.S. SII talks was drawn up on the morning of 6 April. Japan was under pressure from the United States, with its slogan of "for the benefit of Japan's consumers." The main issue—the revision of the *Daitenho* [Large-Scale Retail Store Law]—has been resolved for the time being. Prime Minister Kaifu came out with the phrase "thinking about benefits for consumers" at a press conference and now, suddenly, we have a great chorus of "for the sake of consumers." This is all very well, but will this interim report really benefit consumers and salaried workers, who account for the majority of Japan's consumers, but who have no real power? [end boxed item]

Many voices have been heard praising the interim report. One of them belongs to Yoshihiro Kogane, Toyo Women's Junior College professor (international relations), a former government economist.

Consumers Have Been Treated Unfairly

"The United States said that Japan's system of placing priority on producers is unfair. Rephrasing that, Japan's consumers are being treated unfairly. Among producers, small businesses and rice-producing farmers are in a weak position, but they have been protected by various systems. The fact that these protective measures are being done away with means that there will be normal competition and, in the end, benefits for Japan's consumers."

And, about reforms activated by "external pressure," Professor Kogane says that "during the Meiji Restoration and in the post-war period, Japan's systems were changed by external pressure. I am not happy with the view that as long as the results are good, everything should be all right and, after all, Japan is not able to make changes of its own accord."

Social critic Hisako Yoshizawa, too, feels that "Japan's government officials have not paid much attention to consumers. Consumer movements grew strong, and then weakened. We have been living in an age where even the slightest demands of consumers were ignored. In that sense, I think the interim report could be given a high rating."

Further Destruction of the Environment a Possibility

Many say that though they "can see some merit in revising the *Daitenho*," they still have doubts. (Takeshi) Ishige, a representative of the Citizens Recycling Movement, states the environmentalist point of view: "I am not sure that it is a good thing to seek wealth and convenience from the aspect of economic efficiency. I am afraid that economic rationalism and competition between products will lead to the destruction of the environment. On the contrary, a slowdown of the economy is necessary for the preservation of the environment. For instance, the more convenient Tokyo is made, the worse things will get."

No Assurance of Benefits

From the woman's point of view, the following doubts are expressed by Atsuko Matsumoto (57), a free-lance writer from Kamakura City, Kanagawa Prefecture: "We may be able to buy foreign products at lower prices, but Japanese people have their own preferences, and if foreign products are brought in without any consideration of those preferences, I don't know what the results will be."

Also, there is no scarcity of issues which affect local governments, such as the *Daitenho* and the question of establishing a taxation system where agricultural land is treated the same as residential land. However, Hideyuki Suzuki, director of the Policy Bureau of the All Japan Prefectural and Municipal Workers' Union, praises the interim report, while expressing his doubts.

Fears about Land Speculation

"From the point of view of salaried workers and consumers, it is certainly true that problems which our government has not been able to solve have been laid bare. But that doesn't necessarily mean that consumers will benefit. Even where the *Daitenho* is concerned, countermeasures will be meaningless, unless they are connected with community planning, and lead to a reduction in prices. And, as far as the issue of taxing agricultural land at the same level as residential land is concerned, the farmers located near metropolitan areas, who are putting all their efforts into agriculture, cannot be ignored. If public land use projects are not established at the same time that policies are formulated, then land speculation may become even worse."

In the distribution industries, which are so much affected by the *Daitenho*, costs may be reduced, with the improvement of distribution channels. On the other hand, the conditions of volume distribution may result in the use of additives to preserve foods for a longer period of time. It has been pointed out that doing this may affect product safety, and thus cause costs to rise unexpectedly.

Also, the critic, Eiko Oyake, who was one of the first to point out the problem of foreign and domestic price differences, welcomes the interim report because "it may benefit consumers," but reminds the government that "It is agricultural products and public utility rates that are expensive, and these are government-controlled. If the government disengages itself from these, they will become cheaper."

The voices of criticism grow stronger and stronger. Shigeru Aoki, former representative of the Salaried Workers New Party also sounds the alarm, saying that "there is not much to rejoice about."

"When the *Daitenho* is revised, the government may provide huge subsidies to small businesses and farmers who part with their land—the ones who stand to suffer the most. To obtain revenue for these subsidies, the government will probably raise the consumption tax from the current rate of three percent to five5 percent, and then to 10 percent. Then, it will be salaried workers who bear the burden of the SII reforms."

Naoichi Takeuchi of the Consumers Union of Japan is forceful in his statement that "Both governments, the U.S. Government in particular, are under the misconception that consumers want only low-priced products and services. It just isn't that simple."

The Need to Plan Vital Communities

"We need a comprehensive paln for vital communities. It is not enough to lower prices. If the provincial cities are flooded with large-scale stores, the towns that exist now will become ghost towns, and communities will be destroyed."

Residential land is the dream of all salaried workers. If changes are made so that agricultural land is taxed at the same level as residential land, then this dream will come true—or, at least, that is the catch phrase being used by the government. With the "1992 implementation" mentioned in the interim report, will residential land become available to us all of a sudden? The answer is no, according to housing problem critic Mikio Sato, who relates his pessimistic view.

"This has come 10 years too late. If these discussions had taken place in 1978, salaried workers might have been able to buy land, since prices were low then. But now agricultural land prices have soared, too."

Equalization of the Tax Burden—The Only Effect

According to Mr. Sato's estimate, the agricultural land in Nerima Ward, Tokyo Prefecture, is worth three million yen per 3.3 square meters. Building an apartment complex with apartments 90 square meters in area would cost more than 100 million yen. If large-scale development were done on 3.13 million square meters of land in Ushiku, Ibaraki Prefecture, even for single-family dwellings, it would cost 2 million yen for 3.3 square meters. Salaried workers simply cannot afford these prices.

Mr. Sato continues: "The only effect this report will have is to equalize the tax burden. Local governments must not allow the indiscriminate development of agricultural land which has been converted to residential land. They should set up precise projects for its use, build large rental apartment complexes, and provide them to salaried workers at reasonable rents."

Critic Fujishima is more outspoken in his view that "the United States talked about 'benefits to Japanese consumers,' but if we believe that the United States is seriously thinking about Japanese consumers, then we're dreaming with rose-colored glasses on. The United States doesn't have the luxury of doing so."

According to Mr. Fujishima, "the matter of the *Daitenho* closely resembles problems relating to the importation and liberalization of rice. Neither of these will provide much of a benefit for the United States, but they will have a great impact on Japan. All this has shaken the LDP, and what did the United States get out of it? Progress in the areas of satellites and electrocommunications."

The Government Must Heed the Voices of Consumers

What Mr. Fujishima is saying is that the United States raised the issue of the *Daitenho*, under the pretense of concern for Japan's consumers, because it wanted to make inroads in areas which it considers more important.

House of Councillors member (Teiko) Kihira, former representative of the Japan League of Women Voters, says "it is typical of the Japanese Government to have ignored the problem of the *Daitenho* when it was brought up by our consumers, but to hustle when the United States speaks out about it. We had the same situation with the textbook problem. Japan's Government must be responsive to the opinions of our consumers."

Mr. Oyake has an appeal to make to Japanese consumers. "The higher-priced a product is, the better it sells. Prices of domestic products also increase, dragged along by this worship of brand-name imported products. Consumers must make more intelligent decisions."

And everyone mentions the weak position of Japan's consumers and salaried workers. Mr. Aoki likens today's Japanese salaried workers to "low-ranking warriors of feudal times. They are afraid of incurring the displeasure of their lords (enterprises), and are helpless to act."

Strong Possibility That Measures Will Be Watered Down

The most outspoken are the pressure groups, such as large enterprises and agricultural cooperative associations. Mr. Sato is of the opinion that "these pressure groups are likely to attempt to influence the government, in the open and behind the scenes, so there is a strong possibility that the items agreed to in the interim report will be watered down when we reach the implementation stage.

It does seem that we will have to keep a strict watch, if salaried workers are to receive any benefits at all.

* Relaxing *Daitenho*

902B0106C Tokyo TOKYO SHIMBUN in Japanese 6 Apr 90 pp 12-13—FOR OFFICIAL USE ONLY

[Text] The revision of the *Daitenho* (Large-Scale Retail Store Law) is likely to further complicate the relationship between Japan's large-scale stores and small- and medium-sized retailers. Since the United States is making such a concentrated attack on the *Daitenho*, it must have plans to expand its enterprises into Japan. Let us examine that point.

There was one American enterprise which was paying careful attention to the movements of Japanese retailers, while the SII talks were going on.

That was the largest toy store chain in the world, Toys R Us, a U. S. company. The plan of this company, which has its headquarters in the state of New Jersey, to operate in Japan, is about to take effect. Last September, Toys R Us established Japan Toys R Us, jointly with McDonald's Co. Japan, Ltd. On 9 January 1990, the two companies submitted an application to open a store in Niigata City.

Annual Sales Target of 2 Billion Yen

According to its plan, Toys R Us will be the main tenant in a shopping center scheduled to be built on a site once occupied by a factory. The sales floor will be 5,020 square meters.

At present, the largest toy store in Japan is Hakuhinkan Toy Park in Ginza, Tokyo (approximately 2,000 square meters). Toys R Us will be 2.5 times its size, and annual sales are projected at 2 billion yen.

Total toy sales in Niigata City in 1988 were 4.4 billion yen, so this would mean that Toys R Us would walk away with half of that.

Toys R Us is well aware of the friction between Japan and the United States. In a press conference held after it had submitted application to open the store, an executive of Fujita Stores, McDonald's Japan Co.'s parent company stated that "we do not intend to use external pressure (in opening our store)," but there is a threatening aspect to his words when he said "if attempts are made to significantly reduce our selling space, we will have to communicate this fact to headquarters in the United States."

Perhaps this statement had an effect but, in any case, a preliminary presentation has been scheduled for interested parties in the Niigata area in mid-April and, thus, the company has progressed one step further toward the opening of its store in October 1992.

However, local businessmen are putting up a "life and death" struggle. In February, a "Prefectural Conference on Countermeasures Against Toys R Us" was held, in which 150 companies from Niigata Prefecture participated. Opposition activity has begun.

No Signs of Other U.S. Firms With Similar Projects

Japan Toys R Us intends to expand its network throughout Japan, with plans for stores in Chiba City and in Sagamihara City, Kanagawa Prefecture, in addition to Niigata.

But, at present, there is no sign of other large-scale U.S. retailers with plans to open stores in Japan.

The business world has not received any information about similar plans.

The Japan Chain Stores Association also reports that "we haven't heard anything." The leading supermarket chain Uny is puzzled that "there aren't even any rumors. But since the United States has been so insistent in this matter, it must be concealing a major infiltration project, which worries us."

What is actually going on here?

The analysis of the Japan Chain Stores Association is that "we think the Americans are waiting to see what happens with the negotiations on the opening of the Toys R Us store. If the store opens without incident, that may provide a stimulus, and the number of other firms following in its footsteps may increase."

"No Mass Entry" Is the Mainstream View

However, the mainstream view is that even if the *Daitenho* is relaxed, there will not be much of an increase in the number of American enterprises entering Japan.

A spokesman for the Ministry of Trade and Industry is philosophical when he tells us that "even if it becomes easier to open stores, I would be surprised if there were an increase anytime soon, because Japanese business expertise in the face of tough competition is different from that of the United States. Discussions about Japan-U.S. friction will simply have progressed one step further."

The Japan Chain Stores Association is watching and waiting. "The number of U.S. firms entering the Japanese market in cooperation with Japanese enterprises may gradually increase, but not those with foreign capital alone. We don't think that Japanese businesses, with their detailed attention to consumer preferences, will lose out."

Then, what is the United States really after? A spokesman for a major distributors' group insists that "the Americans' aim is for Japanese large-scale retailers to increase imports of U.S.-made products by enlarging their imported products sections."

Furthermore, Tadashi Saito, managing director and president of the Distribution Economics Research Institute explains that "the United States sees the *Daitenho* as symbolic of the various policies to encourage imports which have made no progress."

Why is it symbolic?

"When it comes to particular products, particular transactions, or specific types of business, we must realize that the business world has its customs, which are rooted in history. These transactions are between businesses, and the government has no control over them. However, the *Daitenho* is a comprehensive, artificially created law. If Japan's attitude changes, then it may be possible to abolish it. One things is certain—it is a target," (Mr. Saito).

U.S. 'Overstepped Its Bounds' in Works Demand

OW1806005490 Tokyo THE DAILY YOMIURI in English 16 Jun 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 15 Jun editorial: "Public Works Controversy"]

[Text] Heated dispute has surrounded the release of the government's 10-year public works investment program. The program was issued for inclusion in the final report of the Structural Impediments Initiative [SII] talks with the United States, scheduled for later this month.

In two respects in particular, reaction to the program has been contentious.

First, the United States has escalated its demands.

Second, government and industry have launched an energetic campaign to grab a piece of the action. National ministries and agencies, local governments and industrial organizations see the planned growth in public works spending as a golden opportunity to push projects to their benefit by pressuring certain Liberal Democratic Party members who represent construction industry interests. This unseemly opportunism, which appears likely to intensify, must be restrained.

Indeed, pork barrel politics at home and unwarranted demands from abroad have gone too far.

U.S. Retracts Its Word

In drafting the SII interim report in April, the United States and Japan agreed on a public works investment program to be implemented by the Japanese Government. Tokyo pledged to draft a 10-year comprehensive program, with total outlays to be specified in the final SII report.

The United States subsequently reversed its agreement, demanding that Japan link its public works spending to a percentage of its gross national product. Specifically, Washington has requested that Tokyo spend an amount equal to 9 percent of the GNP by the fifth year of the program, and 10 percent by the final year. Further, the White House has requested that Japan publish field-by-field breakdowns of public works spending for the nest decade and annual budget projections for each field.

The United States has overstepped its bounds.

Naturally, in this age of borderless economies, Japan is expected to cooperate with the United States and other coutnries in laying down rules for fair trade. But this case represents a clear exception. The publication of annual and field brakdowns threatens Japan's sovereignty. We should reject the demand.

Keep Deficit Down

Finally, a secure revenue source is vital to the creation of a program to modernize the nation's infrastructure. For the first time in 15 years, the government, this fiscal year, ended its issue of bonds to cover deficits. But the amount of bonds to be repaid is estimated at Y164 trillion, as of the end of this fiscal year. The interest alone will consume more than Y11 trillion annually. If the government were to issue construction financing bonds to pay for increased public works spending, the nation will once again tally up an enormous deficit.

Taken together, the facts point to one sensible fiscal policy. The expansion of domestic consumption—without inflation—is central. But the government should also attend to domestic financial conditions and various other economic indices—such as commodity and land prices—when it effects its public works spending program.

U.S. 'Ignores' Public Works' Inflationary Role

OW1806125990 Tokyo THE DAILY YOMIURI in English 17 Jun 90 p 1—FOR OFFICIAL USE ONLY

["Economic Forum" article by Yoshio Matsui, YOMIURI SHIMBUN economic editor: "U.S. Ignores Public Works' Inflationary Role"]

[Text] Japanese and U.S. negotiators are toiling over last-minute adjustments to their stances as they approach the late June deadline for the final report of the Structural Impediments Initiative talks. During talks leading to the release of the interim report in April, U.S. negotiators were primarily concerned with how to treat Japan's Large-Scale Retail Store Law. This time, their main concern is with Japan's 10-year public works investment plan.

The United States demands that Japan should raise its investment in infrastructure from the current 6.8 percent of the gross national product, or Y30 trillion a year, to 9 percent in five years and 10 percent in 10 years. It also urges Japan to reveal planned spending in annual amounts.

The Japanese government insists that showing such detailed plans is impossible. It is willing to show target figures for specific areas of public works spending, such as for sewage systems, city parks, housing, highways and garbage and industrial waste disposal plants. For example, the government plans to expand the sewage system to serve 70 percent of the nation's households by the year 2000, up from the current figure of 44 percent.

Despite its willingness to be specific about the type of planned public works, the government intends to maintain its basic stance of revealing the total amount of planned spending over the next 10 years, instead of in annual amounts.

Most of the U.S. demands during the current round of talks, as before the release of the interim report, are appropriate and reasonable. However, the amount of spending increases the U.S. side demands is too extreme. If Japan raises the investment in public works to 9 percent of GNP in five years, public works spending will have to post an average annual increase of 10 percent. Moreover, the U.S. demand for Japan to reveal annual spending targets is too exacting. Accepting it would mean that public works spending would be decided according to the U.S. plan, not according to Japan's initiative. That would be absurd.

Investment in public works is a way to stimulate business during a slumping economy. Lowering such spending is a way to cool business off when the economy is overheated. The U.S. side overlooks this role of adjusting the economy that public works spending plays.

Currently the world economy is surrounded by a fear of inflation. This applies to Japan, where the shortage of construction workers is leading to increases in their wages. If the public works investment is increased under such a situation, inflation is certain to be kindled, which would necessitate the tightening of the money supply. And that could trigger a competition to raise interest rates globally. Such a result is never advantageous to the United States.

United States

Security Treaty With U.S. Still Deters Moscow

OW0906052690 Tokyo THE DAILY YOMIURI in English 7 Jun 90 p 3—FOR OFFICIAL USE ONLY

[First of a four-part series on the "enuduring significance of the Japan-U.S. security treaty," by Takeshi Uemura, YOMIURI SHIMBUN staff writer: "Threat Still Deters Moscow"]

[Text] Despite recent overtures from the Soviet Union toward Asia, the government continues to emphasize the importance of its security treaty with the United States on the grounds that the Cold War has not yet ended in the region.

"Drastic changes in Europe have not spread to Asia," Prime Minister Toshiki Kaifu said recently. "Therefore, it is important to continue to commit ourselves to the security treaty in order to avoid creating a power vacuum in Asia."

Foreign Minister Taro Nakayama also believes the treaty is important for Japan's peace and security. "When the original treaty was revised, critics charged that (its conditions) may draw Japan into a war. But despite our commitment to the treaty, Japan has been at peace for the entire 30 years.

"Together, the United States and Soviet Union possess nuclear arsenals able to destroy the Earth 10 times over. Japan's peace and security cannot be neglected just because the two superpowers are now talking to each other."

While a cautionary mood prevails among Japanese politicians, the Soviet Union, which has been regarded as the major threat, has been showing increasingly friendly attitudes toward Asia. "We want to probe the possibility of having talks with Asian countries to establish trust-building measures and to even reduce arms," Soviet Deputy Foreign Minister Vladimir Petrovskiy said at a U.N. disarmament conference in Sendai in April. "It is possible to duplicate the European disarmament process in Asia."

The Soviet Union has announced a unilateral reduction of 200,000 troops stationed in Asia and 16 warships in the Pacific. It also decided to withdraw troops from its naval base in Cam Ranh Bay, Vietnam.

When Aleksandr Yakovlev, a close aide to Soviet President Mikhail Gorbachev, and other Soviet Communist Party members last November reviewed Moscow's unilateral moves, they concluded that it is necessary for the Soviet Union to open dialogues with Asian countries on specific arms reduction.

Indeed, some Soviet officials are irritated by how slowly disarmament talks have progressed in Asia. "There has been no success whatsoever in Asia to create a disarmament forum (like that of the Conference on Security and Cooperation in Europe)," Igor Rogachev, another Soviet deputy foreign minister, said in April.

What is bogging down disarmament talks in Asia?

The Defense Agency stated in an April internal report that the situation in Asia is much different from that in Europe because Asia, unlike Europe, is not simply divided into two blocs. The report also explained that the role of China, which belongs to neither East nor West, and the divided Korean Peninsula further complicate the situation in Asia. In addition, the Soviet Union has deployed from one-third to one-fourth of its nuclear arsenal in Far East, as well as its most advanced destroyers and fighters.

Atsuyuki Sassa, former head of Security Affairs Office within the Prime Minister's Office, says that the Soviet

Union is deploying its most advanced weaponry partly in preparation for disarmament talks in Asia. But most Foreign Ministry officials contend that the Soviet Union is ignoring necessary steps leading to such talks. Most urgent of these, and precluding any negotiations, they said, is a Soviet withdrawal from the northern territories and a resolution of the territorial dispute.

Some officials maintain that Japan's main negotiating card will be its alliance with the United States. "Unity among North Atlantic Treaty Organization nations was important in European disarmament negotiations," said Takehiro Togo, head of European and Oceanic Affairs Bureau of the Foreign Ministry in charge of negotiations with the Soviet Union. "Likewise, in order to negotiate with the Soviet Union, Japan needs to team with the United States."

Administrative Vice Foreign Minister Takakazu Kuriyama recently stated that the Japan-U.S. security treaty is important because Japan can play the U.S. card in negotiations with the Soviet Union.

"The Soviet Union deals seriously with Japan because Japan is an ally of the United States," Kuriyama wrote.

LDP's Abe Views Japan-U.S. Security Pact

OW1906051990 Tokyo MAINICHI SHIMBUN in Japanese 16 Jun 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Interview with Shintaro Abe, former general secretary of the Liberal Democratic Party, by an unidentified MAINICHI SHIMBUN reporter at his Seiwakai office in Tokyo; date not given]

[Text] [Question] Will you comment on the meaning of the Japan-U.S. Security Treaty and its role now, when U.S.-USSR relations are entering a new era?

Shintaro Abe: Among the Diet members, there are not many left who participated in the Diet session to deliberate on a revision of the Security Treaty [30 years ago]. In fact, I am the only man left of those who served on the Diet Special Committee on the Security Treaty. At that time, the atmosphere in and around the Diet was so tense; it was like the eve of a revolution. (But) as shown by history, the pact was a most meaningful one, as it assured peace and prosperity for Japan. This indeed has secured peace and stability not only for Japan but also for Asia.

Now, with progress being made in arms reductions, its military functions will recede, but its political-economic functions will emerge in their place. We cannot even think about revising or abolishing it. The treaty is necessary as a major tie linking Japan and the United States, and therefore it must be maintained. The maintenance of the solid Japan-U.S. tie is very necessary in solving pending Japan-USSR issues, too.

[Question] Would you please tell us about your hopes and intentions as a special envoy [to the United States].

Abe: Japan-U.S. relations are complicated now, with friction existing over economic matters. There are voices of distrust (in the United States). And for that reason, the security pact is more necessary. We must overcome this situation by effective operation of the pact. I would like to meet with President Bush and other key government officials and congressional leaders for frank discussions.

[Question] The question of Japan increasing its share of costs for maintaining U.S. forces in Japan will be a focal point of discussions while you are in the United States. Is that correct?

Abe: The current Special Agreement is valid until 1991. Hence, we will have to have a new agreement by 1992. It is only natural that Japan should make efforts to increase its share of costs for stationing the troops.

[Question] Some say that Japan should bear all the yen-denominated costs, including basic pay [for Japanese employees].

Abe: Even Defense Secretary Cheney has not said anything about Japan bearing all the yen-denominated costs. There are various types of yen-denominated expenses. If talks are held with regard to basic pay and utility charges, I think this may be possible based on provisions under the Special Agreeement. But if even repair expenses for vessels, for instance, are to be included, then it will be impossible unless the Status of Forces Agreement is amended. The government is not thinking about an amendment of the agreement at this time. Japan's share of expenses to maintain the troops now stands at about 35 percent of the total. Japan should raise that percentage.

[Question] Will the question of rice import liberalization be a topic during your visit to the United States?

Abe: I do not know if they plan to bring up the question. I do not see a need to bring it up from our side. As far as rice is concerned, first of all, there is a resolution of the Diet in this regard. There is no change in our policy of opposing its liberalization. But Japan is one of the initiating members of the Uruguay Round, and therefore we have to make it a success, too.

[Question] Is it possible that the United States will come up with an order with regard to the Japan-U.S. Structural Impediments Initiative [SII] talks?

Abe: There will be final negotiations in Japan on 25 and 26 June. Meanwhile, discussions are underway in the Uruguay Round. What I can do, perhaps, is to convey the views of the United States to the Japanese Government.

[Question] You have proposed the establishment of a Japan-U.S. exchange fund (tentative name).

Abe: It has been my thinking, since my days as foreign minister, that while Japan's official development assistance (ODA) to developing nations is expanding, its exchanges with industrialized nations are not expanding. To promote exchanges, we need funds, but we have almost none. I will do everything to facilitate the creation of an organization.

[Question] When you meet with President Bush, will you ask for his cooperation on the issue of return of the northern territories?

Abe: The United States has always made efforts for return of the northern territories. I am grateful for its efforts. But after all, Japan is the country that seeks the return of the territories. We cannot depend only on the United States to solve the question. It is only natural that Japan and the Soviet Union themselves should come to terms on the issue. I would certainly like to hear what was discussed in the meeting with Soviet President Gorbachev regarding Asian questions, particularly the Japan-USSR territorial question.

[Question] What is your basic thinking about reform of the electoral system?

Abe: The reform has to do with the changing substance of political party politics and the political life of individual Diet members. It is only natural that they (individual Diet members) should have great interest in this. I think full discussions on this should be held through party organizations, allowing all concerned to have changes to debate and discuss the issue. On the other hand, representatives of factions should not try to put pressure on any differing views or engage in arguments for the sake of arguments. They should express their views openly in formal organizations of the party. I myself do not yet have enough data to make a judgment on the question.

Soviet Union

Opposition to Economic Aid to USSR Noted

OW1906070890 Tokyo YOMIURI SHIMBUN in Japanese 17 Jun 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Economic assistance to the Soviet Union is expected to be a major agenda item at the Houston summit of industrialized nations in July, and in this connection, the government on 16 June firmed up a basic policy to deal with the issue. Under the policy, the government will express its intention to positively provide "intellectual assistance," including enterprise managerial know-how, at the forthcoming summit. However, the government will oppose any economic assistance to the Soviet Union on the grounds that 1) any government assistance, including official loans, must be cautiously examined and 2) the Soviet Union is a superpower like the United States and is in a position to be an aid donor.

At present, the United States is opposed to any economic assistance to the Soviet Union on the grounds that the country is a military superpower and is continuing to aid Cuba. However, West Germany is taking a positive stance on economic assistance to the Soviet Union. Therefore, summit participants are expected to discuss how to assess Soviet political and economic reforms in a political declaration. At the conference of 24 Western nations (G-24) held late last year, West Germany called for economic assistance to the Soviet Union. At the ministerial council meeting of the Organization of Economic Cooperation and Development (OECD) held in May this year, some West European nations, including West Germany, stressed the importance of economic reconstruction in the Soviet Union and repeatedly called for economic assistance to the Soviet Union, including private financial assistance, to meet the growing financial demands of the USSR as well as Eastern Europe. West Germany and other nations are reportedly examining easier loan terms for the Soviet Union by the European Bank for Reconstruction and Development, and the Houston summit is most likely to take up this question.

The government is highly appraising the series of reforms inaugurated by President Gorbachev in the Soviet Union because it has spurred democratization in Eastern Europe and ended the East-West confrontation in Europe; it has also brought changes to the cold war structure. At the forthcoming summit, the government, from the standpoint of this appraisal, plans to propose lateral support for Soviet economic reforms by promoting active personnel exchanges and providing market economy know-how. On economic assistance to the Soviet Union, the government is taking a cautious stand. It believes the Soviet Union is different from the East European nations which are seeking Western-style market economy because 1) the Soviet Union is not eligible for official development assistance (ODA); 2) the shift to market economy in the Soviet Union is unclear; and 3) the future of the Soviet political situation is uncertain. If West Germany puts forward any concrete proposals for economic assistance to the Soviet Union at the summit, the government plans to oppose them from Japan's special position of having to deal with the northern territories issue.

As for the United States, it will also oppose any economic assistance to the Soviet Union on the grounds that there has been no fundamental change in U.S.-Soviet military confrontation in the Far Far East and the Soviet Union has yet to resolve the Lithuanian question.

Territory Issue Raised at USSR-Indonesia Talk

OW1706044490 Tokyo MAINICHI SHIMBUN in Japanese 15 Jun 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] With Soviet President Gorbachev expecting to visit Japan next year, the northern territorial issue is drawing attention. The issue was discussed at a meeting held between Indonesian President Suharto and President Gorbachev (then chairman of the Supreme Soviet). The substance of their discussions was conveyed by President Suharto to Prime Minister Kaifu when the latter visited Indonesia in May this year. This was disclosed by several government sources on 14 June. President Suharto explained to Prime Minister Kaifu that he discussed the territorial issue with President Gorbachev at the meeting in Moscow on 11 September 1989. According to the Indonesian president, the Soviet side said "the territorial issue is one of factors impeding the smooth progress of Japanese-Soviet relations."

With regard to the northern territories issue, President Bush mentioned it at the U.S.-Soviet summit held early this month. Some top U.S. officials have mentioned the issue. However, it is very unusual for a leader of a third country other than the United States to have asked the Soviet side about the territorial issue. Regarding the Soviet view that the territorial issue is one of the factors impeding progress in Japanese-Soviet relations, one senior Foreign Ministry official believes that "such a view does not mean a major deviation from the conventional Soviet view."

On 27 September, about two weeks after the Gorbachev-Suharto meeting, Japan-Soviet foreign ministerial talks were held in New York. At the talks, Soviet Foreign Minister Shevardnadze formally proposed to Foreign Minister Nakayama that President Gorbachev visit Japan in 1991. The two countries later agreed on the Soviet president's visit to Japan. There is a strong possibility that President Gorbachev decided to visit Japan after deciding that whatever form it may take, it is indispensable to break the deadlock in the territorial issue in order to improve Japanese-Soviet relations. Hence, the unveiling of the president's remarks shortly before his visit to Japan was decided is noteworthy.

According to the government sources, Indonesian President Suharto, explaining the substance of his discussions with President Gorbachev, told Prime Minister Kaifu: Asked about relations with Japan, Mr. Gorbachev answered that "our relations with Japan are not going very smoothly." When President Suharto asked his Soviet counterpart if the territorial issue is a cause for such a stalemate in Japanese-Soviet relations, Mr. Gorbachev is said to have answered that "the issue is one of the factors."

Mr. Gorbachev is said to have stated that "if Japan poses a threat to us, we are not afraid of it." However, a senior Foreign Ministry official denied that remark.

The Japanese Government, which has insisted on a package return of the northern territories, has repeatedly explained Japan's position at the UN General Assembly and summit meetings. In particular, the government has conspicuously stepped up its efforts to explain Japan's position since Takeshita was in power.

Ministry Unchanged on Territorial Issue Stance

OW1806133490 Tokyo MAINICHI SHIMBUN in Japanese 18 Jun 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Unattributed commentary]

[Text] Titarenko, director of the Far East Institute of the USSR Academy of Sciences, has made a proposal for the "multiphase" settlement of the northern territorial issue. Concerning this proposal, a Foreign Ministry source pointed out on the evening of 17 June that "it is one of varying views that have been expressed in the Soviet Union," and that "we should not put our mind at ease because of these views," but that "the proposal must be studied thoroughly, and it should not be approved carelessly." Thus, the source stressed no changes in the government policy of demanding the return of the four islands en masse and concluding a peace treaty.

Concerning the northern territories, the Soviet side recently made various remarks that can be regarded as "different versions of ideas." When Yeltsin, leader of the drastic reformists and people's deputy of the Soviet Union (who is currently president of the Russian Soviet Federated Socialist Republic), visited Japan last January, he disclosed a five-phased plan for settling the issue, and said as follows: "The northern territories will be turned into a free industrialized area for Japan, and it will be demilitarized then. Later on, a peace treaty will be signed while the settlement (of the issue on the return of territories) can be left over to the next generation. Titarenko's views are more or less similar to what Yeltsin has stated.

Japan has adhered to the "idea of starting with the return of territories," based on the processes of first returning the territories, then signing a peace treaty, and finally promoting economic relations. However, various remarks made by the Soviet side have a common feature; that is, they all advocate the "idea of returning the territories in the final stage" based on the reversed sequence of the processes.

According to Professor Hiroshi Kimura of the Slavic Research Center at the University of Hokkaido who has authored such books as "Northern Territories", Director Titarenko is an expert on China affairs, and he has hitherto adhered to a hardline approach toward the northern territorial issue, and he has "defended" the Soviet Government's official line in his articles.

Soviet sources in Tokyo have also indicated their views that "Titarenko is not such an influential adviser as Primakov, former chairman of the Federation Council who is a close associate of President Gorbachev."

However, the Foreign Ministry source feels that "Mr. Titarenko is a close associate of Mr. Primakov and Mr. Yakovlev, member of the CPSU Politburo." In this sense, it seems possible that "Titarenko's remarks can be taken as a barometer indicating steady changes in Gorbachev administration's policy toward Japan," (according to Prof. Kimura).

Soviets 'Laundered Money' for Restricted Items

OW1606132790 Tokyo JIJI in English 1259 GMT 16 Jun 90—FOR OFFICIAL USE ONLY

[Text] Zurich, June 15 (JIJI PRESS)—The Soviet Union has laundered money through Swiss banks for its imports of restricted Japanese products, Swiss newspapers said Friday. Soviet payments for the imports of electronic data-processing devices from two Japanese companies were made into Swiss bank accounts before remittance to Japan, they said.

The Japanese probucts are believed on list of goods whose exports to communist countries are banned under the Western bloc's Coordinating Committee for Export Control (Cocom).

Newspapers did not identify the Japanese companies or specify the time of the Soviet payments and their connection with any detected Cocom violation cases. They said the dubious Soviet payments are part of money-laundering cases in the 1980s which have been unearthed recently.

Switzerland has recently tightened its restrictions on money landerings to make illegal funds legal through banks. Drug traffickers in Central and South America are believed to deposit their money coming from drug sales mainly in Swiss banks.

Siberian Trade Leader Seeks Investments

OW2905225190 Tokyo NIHON KEIZAI SHIMBUN in Japanese 29 May 90 Morning Edition p 5—FOR OFFICIAL USE ONLY

[Text] The East Siberian Association for Economic and Trade Relations with Foreign Nations has been promoting its activities with Irkutsk of the Soviet Union as its center. Boris Aleksevich Getomanskiy, president of the Association, granted an interview with a NIHON KEIZAI SHIMBUN reporter, and stated: "We would like to establish a joint venture, a company for developing resort facilities, with Japanese enterprises so as to build hotels and golf courses around Lake Baikal." He also called for starting regular flights between Japan and Irkutsk to attract Japanese tourists.

Other Countries

Researcher Reveals Kim Il-song Message to PRC

OW1706062890 Tokyo MAINICHI SHIMBUN in Japanese 14 Jun 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[By correspondent Masaharu Shimokawa]

[Text] Seoul, 13 Jun—As public interest in the causes for the start of the Korean war is heightening anew on the eve of the 40th anniversary of the start of that war, a Chinese researcher has revealed for the first time that Kim Il-song, then premier of the Democratic People's Republic of Korea, sent an emissary to Chinese Chairman Mao Zedong prior to the start of the war in June 1950 to inform Mao about his plan to unify Korea by force of arms. The Chinese researcher will report this to an academic meeting to be held in Seoul 14-15 June in commemoration of the 40th anniversary of the Korean war.

Zhai Zhihai, a researcher at the China Institute for International Strategic Studies, will deliver the written report. On 13 June, he submitted the report to the "Korean War Research Society," the sponsor of the meeting. The research society is headed by President Kim Chol-pom, a professor at the National Defense College.

According to the report, in 1949 Premier Kim exchanged views on many occasions with then Premier Stalin about his military unification plan. Toward the end of the same year, when Chairman Mao visited Moscow, Premier Stalin told the Chinese chairman about this. Premier Kim's military plan was debated at the level of principal leaders.

Later, on his way home from Moscow in April 1950, Premier Kim sent an emissary to Beijing for a meeting with Chairman Mao. At that time, however, the emissary reportedly notified the Chinese leader of only the decision to unify the country by military means, without disclosing the details of the military plan.

According to the researcher, Premier Stalin received detailed reports from Premier Kim on military plans and data. The researcher analyzed that this difference was shown because Premier Kim at that time regarded the Soviet Union as the only patron useful for the unification of the fatherland. He says that, immediately before the Korean War, Chinese leaders knew about North Korea's general view but was not totally informed about when and how the operation would be carried out.

Regarding the causes for the Korean war, traditionally there have been two broad theories: One is that it was an "invasion of the South," which is asserted by South Korea and the United States; the other is that it was an "invasion of the North," which is alleged by North Korea. Recently, Soviet scholars and magazines have created a stir by asserting that it was an invasion of the South by Premier Kim Il-song. This is the first time that the "invasion of the South" theory has been supported by a Chinese scholar making public a research report that Premier Kim sent an emissary to Chairman Mao before the start of the war.

Chu Kon-yong, guest researcher at Gakushuin University's Institute of Oriental Culture, who is well versed in Chinese moves during the Korean war, gives high credibility to the Zhai Zhihai report. He said: "I personally met and interviewed officials concerned from the Chinese side and confirmed similar facts. The only difference is that I believe the emissary was sent in February or March 1950. I was told that the Chinese side did not approve of the opening of hostilities."

Fujimori's Election as Peruvian President Viewed

OW1506055890 Tokyo THE DAILY YOMIURI in English 13 Jun 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 12 June editorial: "Pride in Fujimori's Victory"]

[Text] The election victory of Alberto Fujimori in Peru is a momentous event in Japan's 122-year-old emigration history. It marks the first time an emigrant of Japanese descent will become the president of a nation.

Almost 1.5 million Japanese descendants make their homes around the world. Not only in Peru, but elsewhere in Latin America and the United States, many play active roles in politics.

Fujimori defeated renowned novelist Mario Vargas Llosa. Fujimori's parents immigrated to Peru in the early years of the Showa era. In their hometown of Kawachimachi, Kumamoto-ken, the people were excited and elated by a native's son's son's triumph. But Fujimori, as he says himself, is 100 percent Peruvian. He does not write his name in kanji characters and, as president of Peru, will not solely represent Japanese descendants.

Still, it is natural that the Japanese are proud of his accomplishment. We extend our congratulations. We are impressed he was selected to lead Peru in its time of crisis. It confirms that, after nearly a century, Japanese in Peru have become true Peruvians. Japanese immigration to Peru began in 1899. Today, 80,000 Japanese descendants and Japanese people live there.

Anti-Japanese Backlash Feared

The majority of ethnic Japanese in Peru are middleclass. They voted as Peruvians, not as ethnic Japanese, as demonstrated by the support many of them gave Fujimori's opponent, Vargas Llosa and his central-right party. Some supported Vargas Llosa out of fear of an anti-Japanese backlash if Fujimori failed to solve Peru's intractable problems.

Anti-Japanese riots broke out in Peru before World War II, triggered by business friction, Japan's war in China and the anti-Japan campaign the United States was conducting at that time. Naturally, ethnic Japanese do not want to see such riots repeated.

The challenges facing Fujimori are enormous. For two years, Peru's economy has registered minus growth. Last year, the inflation rate soared to 2,800 percent. Two out of every three workers can find only occasional work. Also, leftist guerrillas, linked with farmers growing coca for drug traffickers, continue their 10-year violent and disruptive insurgency. Peru is the world's largest producer of coca, which is then used as the basis of cocaine.

Voting Analysis

Fujimori, a political unknown with fresh ideas, appealed to the Peruvian people in their desperate search for answers to their country's chaotic economy and unsettled politics. He was supported by lowerincome voters who rejected Vargas Llosa's elitist image and others who were turned off by Vargas Llosa's severe proposals to reform the economy.

Some people believed also that Fujimori's election would bring Japanese economic aid. We believe that while Japan should help developing countries, it should not base its aid on the ethnic origin of those nations' leaders.

Promising to create a strong nation by dint of honesty, hard work and technology—interestingly, all qualities that reflect Japanese virtues and achievements, Fujimori has raised the expectations of Peruvians.

We hope his administration will create a healthy nation that fulfills the hopes of its people.

Political

* Rivalry Between Hashimoto, Ozawa Intensifies

902A0135A Tokyo SEIKAI ORAI in Japanese Apr 90 pp 11-19—FOR OFFICIAL USE ONLY

[Article by journalist Atsushi Kinoshita]

[Text] **Ozawa's Money Laden Elections Crush Campaign Reforms**

There is a war, the "Ichi-Ryu War," being fought between Ichiro Ozawa and Ryutaro Hashimoto, the present and former secretaries general of the LDP [Liberal Democratic Party]. The war is over the leadership of the largest LDP faction, the one led by Takeshita. Ozawa and Hashimoto have two things in common—they are both graduates of Keio University and are second-generation politicians. Beyond this, they have nothing else in common, and so this dog fight of a showdown is attracting a great deal of attention.

One indication of their differences in political style comes from the role they played in the upper house elections of last July and in the more recent ones to the lower house. Both Hashimoto and Ozawa, as present and former secretaries general, played a leading role in these elections.

Hashimoto crisscrossed the country on behalf of Prime Minister Uno, who was immobilized due to a scandal involving a mistress. As the "face of the LDP" with good looks and eloquence, Hashimoto proved extremely popular wherever he went and emerged as a leading candidate to be the next prime minister. However, despite his furious campaign activities on behalf of his party, the

LDP suffered a setback and eventually lost the opportunity in the lower house to effectuate election reforms.

In contrast, Ozawa, in the more recent elections to the lower house, took charge of elections from the LDP headquarters, rarely venturing out into public. Despite this and despite the criticism that the party was, as never before, "embracing big businesses and running heavily financed campaigns," the LDP won a big victory, gaining a respectable majority of 286 seats in the lower house. Ozawa's shrewd performance in the elections impressed the party members and big business, and suddenly he emerged as a strong candidate to succeed Kaifu as the next prime minister.

Such contrasting performances reinforced the long-standing view that "Hashimoto can win the popularity contest, but Ozawa has the trust of party members and big business." This view, however, is eroding. According to one executive of a major consumer electronics firm, "No, that's a superficial way of looking at these two. In fact, since about the time of the lower house elections, the financial world's view of them has changed substantially." Dropping his voice, the executive continued, "The 'Ozawa strategy' in the recent elections was exactly the same as the one used by former Prime Minister Tanaka, the one that people criticized as 'embracing big businesses and running heavily financed campaigns.'" In fact, I believe that this time the party held an even tighter and more open grip on big corporations than Tanaka. They mobilized more people and more money was raised. Some in business worry that "with elections run on money like this, the world will laugh at us and will not take us seriously." Some have criticized big business for letting Ozawa get away with too much. Increasingly it is said that "you never know what a man like Ozawa will do next." He has always had a dirty-tricks image. I believe that more and more business interests will distance itself from Ozawa, saying, "He reeks dangerously of Tanaka."

How, then, do LDP members feel about Ozawa? While it is understandable that rival factions would be critical of him, it is said that even within his own Takeshita faction, the number of members criticizing Ozawa is suddenly increasing. One mid-level legislator openly vented his anger on Ozawa, "Mindful of the Recruit scandal, not a few junior and mid-level members felt that the elections should be conducted without money being involved and that we should be serious about reforms. But somewhere along the line, talks of money emerged in full force, and even the most conscientious among us were all caught up in the race for more money and manpower from big business. After that, everything turned hodgepodge. When the elections ended, it turned out that the haves breezed through it and the have-nots were either squarely defeated or just barely made it. So what Ozawa did was to destroy all that we, the conscientious ones, tried to do to effect reforms."

It is said that such anti-Ozawa sentiment within the party is gradually gaining strength, particularly among young members with two or three election victories behind them and among mid-level ones with six or seven victories. Among the latter, especially, there is a strong resentment against all the important posts going to Ozawa.

The stronger the anti-Ozawa feeling, the more the junior and mid-level members lean toward Hashimoto, raising his standing within the party. This is happening in big business as well.

"No Elections Can Be Won Cleanly"

Certainly, no other election in history elicited more money-related pre-election news coverage than the present one. Such coverage began to appear in print last year when, on 11 November, ASAHI SHIMBUN carried the following headline on its front-page: "Secretary General Ozawa Tells Chairman of Federation of Economic Organizations: We Need Y30 Billion for General Elections."

The ASAHI coverage—"Secretary General Ozawa asked the federation to cooperate in the general elections by donating Y20 or Y30 billion for the LDP campaign chest"—was based on a leak from the closed meeting of the representatives of the Federation of Economic Organizations and the LDP, held, after the lower house elections, on 21 September. Representatives from the federation included its chairman, Eishiro Saito, and three vice chairmen, Gaishi Hiraiwa (chairman of Tokyo Electric), Takuji Matsuzawa (adviser, Fuji Bank) and Shoichi Sanami (adviser, Toshiba). The LDP was represented by Secretary General Ozawa, Finance Chairman Akira Ohno and Accounting General Fumitake Kishida.

Coverage of this sort continued, and, on 2 February, when the heads of the LDP, Japan Socialist, Clean Government, Communist and Democratic Socialist parties met for a five-party public debate, Chairman Doi of the Socialist Party took up the "Y30 Billion Contribution Question" and characterized the LDP as "an unrepentant, unremorseful party." Prime Minister Kaifu emphatically denied the truth of such allegation and Secretary General Ozawa, the man in charge of the LDP campaign chest, joined in, with his voice increasingly becoming gruff, "No such request was made. Such an allegation libels our party."

No matter how emphatically Kaifu and Ozawa insist on the untruth of such an allegation, no one would believe them. In fact, even within their own party, there are some who support the allegation. According to one veteran party member, "The actual amount collected by the LDP totaled Y26 billion. Of that, Y6 billion came from the National Political Committee [kokumin seiji kyokai], and Y5 billion each in special contributions from four industry organizations—auto, consumer electronics, etc. The industries were reluctant at first, but Ozawa showed his 'dagger' and reminded them of the balance that had accrued from the elimination of the commodity tax when the Consumption Tax was introduced. When it comes to things like this, Ozawa shows gutsy flashes of genius."

Ozawa, in the meantime, often spoke of resigning from public office should the LDP lose its majority in the Diet. Such talks of resignation may have been a "threat" expected of Ozawa, but they proved to be heavy body blows to big business, whose contributions to the LDP had served as a kind of "premium to ensure the survival of democratic economy."

Moreover, Ozawa ignored the traditional tacit agreement with the federation that the latter would serve as the only source of campaign funds for the LDP and went straight to the individual industries. Furthermore, under his directive, messages targeted to these industries were frequently sent through underground broadcasts: "We need more cooperation from the auto industry. We must levy new taxes like the road tax." "There must be new export tariffs." "How about restoring some of the commodity taxes on consumer electronic products?" These messages, some going against certain rules and some as threats, were sent out openly under the name of an "emergency situation."

Ozawa demanded more than money from big business. His demands extended to personnel, to cars and to office equipment for campaign headquarters. And these demands were relayed from big businesses to their contractors and subcontractors throughout the country. The LDP candidates thus totally embraced big business.

Despite all this, Ozawa was oblivious to public criticism. "It's natural for business to support the LDP. There's nothing we should be afraid of," he would say with a straight face. His colleagues in his faction, Chairman Kanemaru and former Prime Minister Takeshita would lavish their praise on Ozawa, describing him as "a man with nerves of steel," "a bold man," or "a man strong in adversity."

In fact, it was because of these "strengths" of Ozawa that Kanemaru and Takeshita insisted on his appointment as the secretary general of the LDP, the most crucial post in the Kaifu administration. In the minds of these two senior politicians, the adverse head wind that resulted from the defeat in the upper house elections had not yet calmed down. To win against the "Three-Point Set" and squelch the popular Doi phenomenon of the Socialists, no lukewarm battle plan would do for these seasoned politicians. They needed someone to lead the battle, someone unafraid to play a dirty role and roll up his sleeves and fight. That someone was Ozawa. In other words, the only thing that Kanemaru and Takeshita expected from Ozawa was a victory in the general elections.

Ozawa knew all too well about such a plan. As soon as he became the secretary general, he repeatedly commented that, "my duty, above all else, is to see that we win the elections." So began the public-be-damned election campaigns that "embraced big business and were heavily financed by it."

Finally, there is the matter of Ozawa's strong animosity toward his rival Hashimoto. During last July's upper house elections, Hashimoto crisscrossed the country as the "face of the party" and was suddenly propelled into stardom within the LDP. Ozawa's reaction to this was, "No election can be won cleanly."

At the same time, Ozawa was jealous of Hashimoto's good looks, his eloquent and persuasive style and his popularity. Ozawa possessed none of these. It was then that he decided, "I will show him my true worth with the Ozawa style of winning elections."

Ozawa's favorite motto is "Clear your own path; do not depend on others to clear it." In contrast, Hashimoto favored "Be always as naive as you were when a novice." Ozawa is more aggressive and thrives on challenge, while Hashimoto is perhaps more passive and conservative. These contrasting traits have surfaced as differences in their political style and methodology.

Be that as it may, the LDP won the lower house elections. It was as much a victory for the LDP as it was for Ozawa. With this victory, he now stood shoulder to shoulder with Hashimoto, who is 5 years Ozawa's senior and whose political career had always been a step ahead of Ozawa. One could almost hear Ozawa bursting into laughter, his narrow eyes becoming even more narrow.

Ozawa as a "Child of a Second Wife" vs. Hashimoto's Pampered Childhood

At the time of the 1969 elections, when Haneda, Ozawa and Kajiyama were elected for the first time, Kanemaru observed that "Haneda is the man for a peaceful time, Ozawa for chaotic times, and Kajiyama for even more chaotic times." The trio had been "discovered" and carefully nurtured by then Secretary General Kakuei Tanaka. It was said that Tsutomu Haneda, the former minister of agriculture, forestry, and fisheries, was an intellectual and that Seiroku Kajiyama, the former minister of home affairs, was a combative ultrarightist.

Ozawa, while never an intellectual, is more than a simple combatant who relies on brute force. Sometimes he is called a "strategist" or a "schemer," but he is also said to be "rational" and "cool." To put it another way, he might be described as a "man with two faces," a "man with both pure and impure" tendencies.

When Hashimoto first got elected in 1963, which would make him two-term senior to Ozawa, he might have fit the Kanemaru mold of "man for a peaceful time." Today some party members see him as "affected and pompous," but he is also like Haneda in that he is viewed as an intellectual who is well-versed in policymaking. He does not, however, enjoy the kind of popularity that Haneda once commanded nor does he take care of junior members as well as Haneda did.

Incidentally, it is debatable whether now is the "time of peace" or the "time of chaos" for Japan. For the LDP, however, which had allowed the reformists-conservative turnabout as the result of the recent elections in the upper house, the time now seemed indeed "chaotic." Therefore, the lower house elections represented a crucial battle in these "chaotic" times for the territorial control of the nation. In the end, Kanemaru's strategy to have Ozawa lead the battle, the man most suited for the chaotic times, was right on the mark.

Ozawa's strength in "chaotic times" is not unrelated to his upbringing. He was born on 24 May 1942 in Fukurocho, Mizusawa City in Iwate Prefecture. He was the eldest son of father Saeki and mother Michi. Saeki at the time of his son's birth was an elected member of the Tokyo prefectural government and so he was living in the Shimoya section of Tokyo while his wife and children remained in Mizusawa.

Ozawa had two elder sisters, the children by Saeki's first wife. The first wife, weary of Saeki's infatuation with politics and his constant neglect of his family, left him, leaving the two girls behind. Michi stepped in to replace her.

According to Hisashi Kikuchi, a political analyst, "It is more correct to say that Michi entered the Ozawa household as a nursemaid to the two daughters rather than as a wife. So, instead of being sent to the Ozawa residence in Shimoya, Tokyo, she was sent to Saeki's home in Mizusawa to concentrate on bringing the children up. She suffered a great deal in Mizusawa. She was from Chiba Prefecture, and Saeki's relatives regarded her as an 'outsider.' They looked down upon her as a 'second wife' and treated her with indifference."

It was under these circumstances that Ozawa was born and reared as a "child of a second wife." It will be a lie to say that such circumstances had no influence on distorting Ozawa's character.

Another source of Ozawa's character distortion was that he failed twice to pass the entrance examinations to the Law Department of Tokyo University. He had hoped to follow in his father's footsteps and become a lawyer, but he had to give up that idea and was barely able to save his face by being accepted to the school of his last choice, the Economics Department of Keio University. But by this time his feud with his father was constant and their ties had been severed.

Saeki was first elected to the Diet in 1946, immediately after the war. Soon after, in the Yoshida cabinet, he was appointed in succession to the posts of minister of transportation, communications (now posts and telecommunications) and construction; and, in the Ikeda cabinet, he headed the Administrative Management Agency. In this manner Saeki became a powerful member of the conservative faction, but he died suddenly on 8 May 1968.

Ozawa was chosen to succeed his father; he was 27 years old, a graduate student at Nihon University. Because his father in his later years had been close to Aiichiro Fujiyama, the former foreign minister, the Fujiyama faction enthusiastically courted Ozawa.

But Ozawa "refused to entrust his fate to the waning Fujiyama faction" and chose to go with Kakuei Tanaka instead. Tanaka was then the secretary general in the Sato administration and in a position to grab the next premiership. With Tanaka's full support, Ozawa won his first election in 1969.

What about Hashimoto?

Hashimoto was born on 29 July 1937 in Shibuya, Tokyo; he was the eldest son of father Ryugo and mother Masa. Ryugo went from the Law Department of Tokyo University to the Ministry of Finance, and joined the Yoshida cabinet as deputy cabinet secretary, securing the honor of being one of the so-called "Thirteen Magistrates of Yoshida." After entering politics, he was active as a staunch friend of former Prime Minister Eisaku Sato. Under Yoshida and Kiishi administrations, he served two terms as the minister of health and welfare and one term as the minister of education, earning a reputation as a "firm and honest politician."

Hashimoto attended the highly selective Azabu Junior and Senior High Schools and went on to the Political Studies Section of the Law Department at Keio University. The writer Joji Abe and television newscaster Taro Kimura are two of his more famous classmates from the Azabu days.

After Keio, Hashimoto joined the firm of Kureha Textile (now Toyo Textile), but when his father died suddenly in November 1962, he decided to enter politics to succeed his father. At age 25, he had just reached voting age.

Under former Prime Minister Sato's directions, Hashimoto was given the title of secretary to the-then minister of health and welfare, Eiichi Nishimura (former vice president of LDP), and ran from District 2 in Okayama Prefecture. He won his first election in November 1963, at the time of the general elections. He was 26 years old.

The First Ozawa-Hashimoto Confrontation in Hotel Suite

Both Hashimoto and Ozawa, as Keio graduates and second-generation lawmakers, were treated to red-carpet treatment while still young. But, because their backgrounds were different, they grew into two extremely contrasting politicians.

Hashimoto began his political career as parliamentary vice minister for the Ministry of Health and Welfare, and moved on to become vice chairman of the PARC [Policy Affairs Research Council] of the LDP, vice chairman of the LDP Diet Policy Committee, and chairman of Social and Labor Committee. In between, he became, at a young age of 41, the minister of health and welfare under the Ohira administration. His greatest achievement as the health and welfare minister was to normalize the relationship between the ministry and the Japan Medical Association, a relationship that had virtually ceased to exist due to policy differences in medical care. Throughout the normalization talks, Hashimoto, known for his daredevilish ways that had earned him the title of "Ryutaro, the man who cuts through the wind," was able to hold his own against Taro Takemi, the powerful "boss" of the Japan Medical Association, and subdue him. After this, he continued as an effective administrator of the ministry as one of "Four Heavenly Guardians of Health and Welfare (Social-Labor)."

Leaving the ministry, Hashimoto became the standard bearer for reforms in his role as chairman of the LDP Administrative and Finance Research Committee. He then served as the minister of transport under Nakasone, deputy secretary general of the LDP under Takeshita, and secretary general, as noted above, under Uno. The Uno cabinet, however, due to defeats suffered in the upper house elections, fell after only 69 days in office. But because much was expected of Hashimoto, he was given the post of minister of finance under Uno's successor, Kaifu; and in the most recent elections to the lower house, he crisscrossed the nation on behalf of his party as "Mister Consumption Tax."

Ozawa began his career as parliamentary vice minister for the Ministry of Construction, and broadened his contacts within the construction industry, the traditional stronghold of Tanaka faction. Then, by winning such appointments as vice chairman of the LDP Diet Policy Committee and chairman of the Standing Committee for House Management, Ozawa was able to cultivate ties with members of the opposition as well as hone the skills necessary for establishing such ties. As the chief of the party's General Affairs Section, he was involved in official coordination of general elections and ranking of tickets for districts under proportional representation, and thereby learned a great deal about electioneering.

Ozawa's first ministerial level post was as the minister of home affairs and commissioner of national public safety, both under the second, reshuffled cabinet of Nakasone. Under Takeshita, he served as deputy chief cabinet secretary, and under Kaifu, secretary general.

A comparison of political careers of Hashimoto and Ozawa offers a striking contrast: while Hashimoto holds the spotlight on the stage, Ozawa is more or less confined to the backstage. If Hashimoto is "light," Ozawa is "dark," and if Hashimoto is "yang," Ozawa is "yin."

From the outset, it became obvious that as Hashimoto and Ozawa both gained strength within the same Takeshita faction, they would eventually clash for the leadership of the faction. Objectively speaking, Hashimoto, with two more election victories than Ozawa, should be a step or two ahead of his rival for the leadership. But Ozawa, it should be mentioned, is related to both Kanemaru and Takeshita by marriage. Kanemaru's eldest son, Yasunobu, married Takeshita's eldest daughter, Kazuko. Former Prime Minister Tanaka was a go-between when Ozawa married the eldest daughter Kazuko of the president of Fukudagumi, the largest construction firm in Niigata Prefecture owned by the Tanaka family. Takeshita, on the other hand, became an Ozawa relative when he arranged the marriage of his younger brother Wataru, formerly a business reporter for NHK and now his personal secretary, to Masako, who is (Takeshita's daughter) Kazuko's younger sister. Through these "blood relations" Ozawa became a "political heir" and commanded the utmost trust from Kanemaru and Takeshita.

Because of these familial connections, there is a strong, hidden strength to Ozawa's position within the party. Hashimoto, on the other hand, despite his seniority and far more abundant political experience than Ozawa, cannot compete with Ozawa in terms of intra-party power play. Understandably, Hashimoto, who is known for his daredevilish ways, cannot be very happy with Ozawa.

On the other hand, Ozawa, too, cannot be very happy with a man like Hashimoto, who, in his view, is all style and no substance and who shies away from assuming dirty roles. There is something about Hashimoto, his disposition, his political stance and method, that does not endear him to Ozawa. Hashimoto is someone with whom Ozawa can never compromise; he is, in short, Ozawa's greatest enemy.

Such a relationship between "Ichi and Ryu" began to attract attention sometime last year and deteriorated gradually within the tumultuous political atmosphere that saw a succession of three prime ministers, Takeshita, Uno and Kaifu, struggle with the Recruit scandal and consumption tax issues.

The relationship exploded when Prime Minister Uno expressed his desire to resign in order to take responsibility for the defeat of his party in the lower house elections and when, suddenly, Hashimoto's name surfaced as Uno's successor. Within the Takeshita faction, anti-Hashimoto sentiments were strong, and there began a move to remove Hashimoto's name from the list of potential candidates. Kanemaru, too, moved against Hashimoto, desiring all the while to install Ozawa as the next leader of the Takeshita faction.

Kanemaru ordered Ozawa to maneuver within the party against Hashimoto, and Okuda to dig up scandalous materials that could be used against Hashimoto. In his capacity as the chief administrative officer of the Takeshita faction, Ozawa proceeded to meet daily with officers of similar rank from other factions in order to enlist their help in "removing Hashimoto." Okuda, in turn, investigated Hashimoto's background for possible scandalous relations involving women.

The coup de grace was delivered to Hashimoto on the afternoon of 20 July at a suite in All Nippon Airways Hotel in the Roppongi district of Tokyo. Hashimoto had been playing golf in Shizuoka Prefecture, but returned to Tokyo to meet Ozawa and Okuda at their insistence. Ozawa spoke to Hashimoto: "It's difficult for the Takeshita faction to support you as our next prime minister. Among other things, you've got some women troubles and...." To which Hashimoto responded, "A pure fabrication!"

Hashimoto adamantly denied any involvement with women, and when Ozawa persisted in his interrogation, he exploded in anger, "Who gave you the power of life and death over me!" With these parting words, Hashimoto stormed out of the room. It proved to be Act One of the clash between "Ichi and Ryu."

Proxy War: Kanemaru and Ozawa vs. Takeshita and Hashimoto

Act Two of "Ichi and Ryu" took a different form, a proxy war of sort between Kanemaru and Takeshita.

This proxy war did not begin overnight. It goes back some time and to what could be described as an abnormal feud between Mrs. Kanemaru, Reiko, and Mrs. Takeshita, Naoko. Reiko's dislike for Naoko is well known, and it got worse when Naoko became the first lady. At such functions as parties sponsored by the various factions, the two would avoid each other completely, not even pausing to greet each other.

The reason is that despite Reiko's seniority and her position as the wife of the chairman of the party, Naoko tended to ignore and look down on her. Animosity between the two wives had an effect on the relationship between their husbands, Kanemaru and Takeshita.

The feud between Kanemaru and Takeshita surfaced from about the time Takeshita stepped down as prime minister, and it stemmed from the question of who would succeed Takeshita. Takeshita maneuvered with a list of his own candidates that included, in descending order of preference, Masayoshi Ito, Dota Sakata and Masasuke Uno. Kanemaru was unhappy with these names, as he was pushing for Takeo Fukuda. What made the situation worse was that Takeshita, while having finally decided on Uno, waited until the last minute to reveal his choice to Kanemaru.

As it turned out, the final decision went as Takeshita had planned, and Uno got the nod. It is said that Kanemaru raged in anger when he discovered, after the fact, that Takeshita had secretly consulted with Nakasone before consulting with him. When Uno stepped down and possibilities for his successor were being considered, Kanemaru apparently had these angry words for Takeshita: "You chose Uno and you failed; you're no longer qualified to speak on his successor. So keep your mouth shut!"

The feud between the two extended to the selection of secretary general under Kaifu. Kanemaru insisted on his direct "disciple" Ozawa, but Takeshita objected, "Ozawa is still too young."

There is also the feud over the consumption tax. Inasmuch as he had to gamble on his premiership in pushing for this tax, Takeshita had a certain amount of attachment and even pride in its passage. But with the defeat in the upper house elections, Kanemaru wasted no time in declaring that the "consumption tax was recalled by the people." He continued to address this issue, declaring that the tax had to be "reviewed," and then "rereviewed," and, most recently, "frozen." In the meantime, Takeshita's distrust of Kanemaru deepened.

With regard to the consumption tax, it is Hashimoto, the minister of finance under Kaifu and the one who is called "Mr. Consumption Tax," who is on the same wavelength as Takeshita, and Ozawa who is on the same wavelength as Kanemaru. Naturally, it is expected that Takeshita would move closer to Hashimoto and try to bring him into his fold. According to many members of the Takeshita faction, Takeshita's attitude toward Ozawa has cooled and, frequently, he can be observed conversing pleasantly with Hashimoto.

Should the animosity between Kanemaru and Takeshita intensify, the battle plan that would emerge would be more and more between Kanemaru and Ozawa, on the one hand, and Takeshita and Hashimoto, on the other. In fact, the "Ichi-Ryu" war is beginning to take the color of a proxy war between Kanemaru and Takeshita, and this is already casting a faint shadow on the Takeshita faction. In the beginning of this article, it was mentioned that from about the time of the lower house elections Ozawa appeared to be moving away from the Takeshita faction. One factor contributing to this move is this conflict between Kanemaru/Ozawa and Takeshita/Hashimoto.

The attention of the party is focused on this confrontation. One leader of the Miyazawa faction offers, with a hint of optimism, the following analysis: "If the Takeshita faction breaks, then that will be the time for reorganizing all the factions, and that could lead to political reforms."

A mid-level member of the Tanaka faction offers a rather bold analysis: "The Tanaka faction cannot continue like this. It must eventually split into two or three groups. One group would have Kanemaru, Ozawa and Kajiyama. Another would be the Hashimoto group. The third group would be Obuchi and Haneda and their kind. The crucial group will be the one led by Hajime Tamura, who commands about 30 members. This group will not split on its own, but will probably bring in the Hashimoto group. If that happens it will have about 40 or 50 members. But Hashimoto gets along extremely well with Kaifu and Yohei Kawano (of Miyazawa faction) and with Tamura, too, so he might be able to unify them all and form a new faction."

Should there be a factional split in the near future, it would be when the "Ichi and Ryu" war had come to a point of no return. It is unclear whether this would occur with the struggle over the succession of the Takeshita faction or with the selection of a Takeshita candidate for prime minister. Time will come when both of these two conflicts must be resolved. And when that time comes, it will inevitably involve all other factions. More and more our eyes will be riveted on the continuing "war between Ichi and Ryu."

* DSP Member Discusses Party's Future

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[Opinion by former upper house Diet member, Yoshihiko Seki: "Time To Return to Spirit Underlying Formation of Party"]

[Text] The Democratic Socialist Party (DSP), which also lost in the House of Representatives general election following the House of Councillors election, soon will hold their party convention and decide on their fate. As a person who has been involved with the party since it was formed, I would like to state some of my humble opinions in order to contribute to the discussion of reconstruction.

It is not the purport of this article to discuss the factors contributing to the defeat in the general election, but I would like to write about items only so that the same mistakes will not be repeated. It is a fact that the response to the issue of the consumption tax was seen as lacking consistency, the fact that party leaders were a part of the Recruit scandal, the fact that an impression was given of indecision in dealing with it, the fact that an error was made in proceeding with JSP [Japan Socialist Party]-Komeito-DSP coalition government talks, and the fact that there was a fear of party prominence such as seen in nonattendance at the government's election system inquiry commission.

The issue, however, is what direction the DSP should take in the future. Like the proverb which says if you have lost the way, return to the beginning, this is the very time when the DSP should return to the spirit underlying formation of the party. The split of the DSP from the JSP in 1960 was due to the formation of a responsible reformist party which could alternate political power with the LDP [Liberal Democratic Party], different from the JSP which is irresponsible about the safety of the nation with their unarmed neutrality. In the 30 years since then, the goal has not yet been reached due to lack of party strength, but there is no reason for the DSP to exist other than achieving that mission.

This Is the Way To Reconstruct the DSP

The JSP Should Be Urged To Break From Convention

Speaking from that viewpoint, the first thing the DSP should do is to clarify their differences with the LDP. There are indeed great differences between the DSP and the LDP in basic national policy such as foreign affairs and defense policy and education policy. That fact should be emphasized proudly as a responsible party.

The fundamental difference from the LDP, however, is that the DSP is a reformist party. In other words, we stand on the frontline of political reform to prevent corruption in order to destroy plutocracy which is tied to vested interests. It is necessary to bear the pain and stand at the head in reforms such as election system reform, strengthening of political funding regulations, and tough public election laws to prevent corruption and provide for public disclosure of a politician's assets.

It is the same for reforms of the socioeconomic structure within the country. Should not most of the American proposals in the Stategic Impediments Initiative talks being conducted between Japan and the United States inherently be advocated by a reformist party in Japan? The DSP normally has stressed international harmony but in the future, the DSP must be adament on that point.

Of course, there should be full consideration of policies for those who are hurt such as small- and medium-size businesses and agriculture, but this very problem is a good area where the DSP can show itself as a reformist party that stands in opposition to the LDP which is bound by vested interests and reluctantly yields to foreign demands, exploiting outside pressure. Should not the opportunity to advocate democratic socialism be more boldly seized since resolution of the land issue cannot be resolved by a market economy alone restricting private property rights?

However, this does not unconditionally support the JSP-Komeito-DSP coalition course. Since it is a dream for the DSP to take over political power independently under the present circumstances, it is natural for the DSP to cooperate with the other minority parties in whatever fields possible. In that sense, the proposal by the DSP in April of last year for coalition government talks with the JSP and including other minority parties, in itself was justifiable. The process, however, was wrong. The objective of coalition government talks must be to demand that the JSP break from convention with their basic policies such as foreign affairs and defense policy and observance of parliamentary government. If it is impossible for the JSP to break from convention on these big differences, it is meaningless no matter how much agreement is seen on other policies. The postponement of this fundamental issue makes the reason for the party's existence obscure.

Of course, I do not begrudge the recent JSP evaluation of reforms. However, if the Self-Defense Forces [SDF], the Security Treaty, and a Japan-Korea Treaty are sanctioned under a coalition government, will the JSP approve the existence of the SDF for the present while recognizing it as a violation of the Constitution and will they approve the Security Treaty and Japan-Korea Treaty reluctantly as a negative inheritance? If that is true, it is fundamentally different from the basic policy of the DSP. In the future, the JSP should be urged to break from convention on this point when the occasion arises but for the time being, the DSP cannot achieve their objective unless they advocate their independence and become powerful.

If the JSP becomes the same as the DSP on these points, however, the reason for the DSP and the JSP to exist separately will disappear. In that case, the difference between democratic socialism and social democracy will indeed be the difference between rice curry and curried rice. In short, it is a question of substance.

The Mission Is a Reformist Party Core

At present, part of the party is talking about a partial coalition with the LDP or forming a new party. Their meaning is by no means clear. If they are attempting to prolong the LDP in power, that is a suicidal act for the DSP. Of course, I am not at all opposed to cooperation with the LDP. If there are emergency situations such as Japan's safety as a nation being threatened, or its prosperity being in peril, it will be necessary to create a coalition government with agreement on policy. Or, with the current opposition phenomenon in the House of Councillors and House of Representatives, if the political situation is stranded in a deadlock concerning the consumption tax issue, for example, and political chaos is anticipated, it probably will be necessary to attempt a compromise with the LDP in the sense of choosing "the lesser evil." Fundamentally, however, the mission of the DSP is none other than to form the core of a responsible reformist party and realize a kind of government where reformist and conservative elements can alternate in power.

* Speculation on Post-Kaifu Political Situation

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[Article by Jiro Honzawa, former TOKYO TIMES political section chief]

[Text] Power is something that is seized, it is said, but waiting for it to fall into one's lap is also a possibility. Following the Kaifu-led LDP [Liberal Democratic Party] election victory that garnered 286 lower house seats—a margin so wide it has not even been dreamed possible—the Abe, Miyazawa, Takeshita and Watanabe factions are sketching the scenarios of a post-Kaifu political situation.

Kaifu Unassailable for the Moment

Prime Minister Kaifu now stands on his own two feet; in this, the prime minister may be said to be an incredibly lucky man. For it was unmistakably true that many in Nagata-cho were plotting his replacement soon after the general election.

There were even some in the Takeshita and Abe factions who regarded Kaifu as a hostess borrowed for the occasion. It was Takeshita, Kanemaru and Abe who decided when the prime minister would act; even Kaifu's call for the dissolution of the Diet after his return from Eastern Europe and his impressive report thereon was quashed by LDP Secretary General Ozawa and a part of the opposition.

Kaifu took time off from his busy schedule to sightsee abroad. During the time he was away Abe planned a trip to the Soviet Union, a move so calculated that even the insensitive Kaifu could but be angered by it. Even Koichi Miyazawa, ever the head of the gentlemen's club *Enchikai*, took the leaders of the Abe and Takeshita factions to task for such behavior.

Kaifu, confident of his health and strength, found himself unable to endure such torment placidly. The shadows under his eyes lengthened, and he attracted sympathy.

Although a difference of sentiment arose between Kaifu and his mentor Toshio Kawamoto after the Kaifu cabinet was formed, Kawamoto still supports Kaifu unreservedly. During the election Kawamoto aimed not a few fiery brushback pitches at attempts (mainly by the Abe faction) to displace Kaifu.

On television, Ayako Miki, widow of deceased former Prime Minister Takeo Miki, faced Abe and told him point blank to stop trying to unseat Kaifu. To Kaifu, in this 39th general election it was more important to defeat his own party than to defeat the opposition parties.

The election results, as everybody knows, gave Kaifu a big victory. How he must have waited for this day. I think it likely he was all the more excited because he had never envisioned a victory of this extent. At any rate, the second Kaifu cabinet was formed.

In countries that employ democratic political systems, the position of leaders who have been baptized by the occasional general election is strengthened. How much more powerful he becomes if he merely trims his sails to the prevailing winds of public sentiment. Kaifu had been how his mentor Miki had been destroyed from within the party. Now he himself had entered the inner rings of power; he felt it in his bones.

To those who had witnessed Miki's fall, a similar attempt to displace Kaifu seems not so easy—nearly impossible, in fact.

At the time, this writer spent more time collecting material with those who were trying to get rid of Miki. I recalled those who had treated Miki as if he had been putty in their hands—men the likes of Takeo Fukuda, Masayoshi Ohira, Shigeru Hori and Etsusaburo Shiina. My perception that Kaifu is here to stay is based on past experience. But politics is essentially an uncertain enterprise; things may change if Kaifu gets careless.

The Abe Faction: "Diplomat Abe" PR Pitch Wasted

Spearheading the move to topple Kaifu is the Abe faction, of course. Reports have come out from the faction that their hope is to install an Abe cabinet as soon as possible.

That ambition was directly reflected in their strategy. With the cooperation of Ozawa, Abe focused on Kaifu's impotence to dissolve the Diet. At the same time, the faction promoted Abe as a diplomat by exploiting his trip to Moscow.

This blunt attempt to replace Kaifu with Abe was a vicious body blow to the prime minister; all the faction had to do after that was wait for the election results to come in. They did not think that the LDP, which was running against the wind, would win by such a wide margin. It seemed to them that they could realize their life's dream after the election by making one determined effort to get rid of Kaifu.

They joined forces with allies such as Noboru Takeshita, Michio Watanabe (a member of the old Nakasone faction) and Toshio Yamaguchi. It seems they left out the aristocratic Miyazawa faction because his faction was too small.

But the results of the general election thoroughly destroyed any hopes of an Abe nomination. Abe's turn did not come up.

Human beings often resort to childish strategems in the most unusual circumstances. In conjunction with the Watanabe faction—many of whose members had once belonged to the old Nakasone faction—the Abe faction shamelessly tried to pack the party and the cabinet with Diet members who had been tainted by the Recruit and Lockheed scandals.

Some members of the Abe faction itself lamented this strategy as childishly unskilled. Some leaders of the faction insisted that the plan was hatched by those around Abe, and that Abe himself had had nothing to do with it.

For Kaifu, there could have been no more welcome turn of events. He could stay in his official residence for six hours at a stretch, watching television, while his rival fell apart and he garnered public support. Thus an old Miki faction member made out well.

Meanwhile the public got the impression that Kaifu had flatly rejected the Recruit- and Lockheed-scandal tainted Dietmen, and they applauded this bold new prime minister. His approval rating climbed steadily.

The Abe-inspired attempt to send Kaifu packing was now an unqualified failure. Abe miscalculated the level of support the Takeshita faction would give him, a level which even now is uncertain.

At any rate, the faction apparently succeeded in leaving the party with the idea that the rough-and-ready Abe strategy had nothing to do with its namesake. To say that Abe had not been involved is something of an understatement: The plotting including such figures as Hiroshi Mitsuzuka, Mutsuki Kato, Masajuro Shiokawa, Taro Nakayama and Yoshiro Mori. Abe pushed to have Kato named chairman of the Policy Affairs Research Council—one of the three top posts in the LDP—and Mitsuzuka (who is thought to be eyeing the post of Minister of Finance) to Faction Office Chairman; Mori was made Chairman of the Policy Committee.

Whatever Kato thought, Mori at least had decidedly mixed feelings about not being put into the cabinet (Mitsuzuka was also excluded, of course). Both Mori and Mitsuzuka had good relations with Kaifu. It is unclear to what extent these two had participated in the mad-dog pursuit of Kaifu's ouster.

Shiokawa and Nakayama are both thought to be in a delicate position. Mutsuki Kato, though Abe's only hope at the moment, is nevertheless junior to Takeo Nishioka (of the Miyazawa faction), a staunch Kaifu supporter.

Though it is not generally mentioned, the Abe faction is itself unsettled concerning Abe's health problems. It is said that a merciless battle to succeed Abe is being fought beneath the surface of the faction.

Yet despite the existence of these hurdles, Abe continues to nurture aspirations to the nation's top post. He places his hopes in the cooperation of his ally Takeshita and the Watanabe faction. It is a race against time, and he is a man who must be thinking on his feet.

Though hoping that Kaifu will come to grief over the budget, trade frictions with the United States and other such issues, the chances of that happening are slimmer than ever now. The emergence of an Abe administration said to be waiting in the wings of the present one is even now enshrouded in uncertainty. An ouster of Kaifu is not as apparent as it is said to be.

Miyazawa Faction: Helping Kaifu Administration Now, Aiming To Succeed It Later

The enemy of my enemy is my friend—and in that sense the Kawamoto and Miyazawa factions are putting much faith in an alliance only lately formed.

Last August, when the Kaifu cabinet was being formed, the Miyazawa faction nominated Yoshiro Hayashi (from Susumu Nikaido's group) for the party presidency, in the hopes of applying a brake to the Abe-Takeshita juggernaut. This move brought the Kawamoto and Miyazawa factions into direct opposition.

Circumstances have changed completely since then, however. The Abe faction, which created the Kaifu administration, simply made more enemies by doing so.

To the Miyazawa faction, which aims to succeed Kaifu, the Abe faction is its main political rival. Because the Abe and Kawamoto factions started a big fight between themselves, it should come as no surprise that relations between the Kawamoto and Miyazawa factions improved.

The Abe-Takeshita maltreatment of Kaifu provided the Mayazawa faction with an opening. When the second Kaifu cabinet was formed Nishioka was elevated to one of the three highest offices within the party, giving the faction a start on the road to a majority.

Miyazawa, schooled in economics and foreign relations, seemed to become Kaifu's mentor. Kaifu, for his part, could have no stronger ally than Miyazawa.

When LDP Secretary General Ozawa and the Abe faction began to torment Kaifu on the issue of U.S.-Japan economic frictions, Miyazawa encouraged Kaifu and told him to let those people do all they wanted—it would redound to his (Kaifu's) benefit.

It was as if Miyazawa was positively encouraging the Abe faction to go ahead and try to undermine the prime minister, if they really thought they had the right to do so in a matter in which state interests were at stake.

Miyazawa now has nothing to lose. He gladly aids Kaifu when the latter requests it; his is the happy lot of the one who lends a helping hand. Unlike Abe, he acts under no duress, and that is his strength.

Miyazawa thinks that governments have a mandate to accomplish things or attempts to accomplish them. In his view, a government should do all that is within its power; if it turns out that it does not receive the mandate of heaven, then so be it. For this reason he could express anger on behalf of Kaifu with the Abe and Takeshita factions for ignoring the prime minister in drawing up their political agenda for the election.

At any rate, he is thoroughly linked to the Kaifu administration. By doing so, he may himself get a chance to succeed Kaifu—or maybe not. In that sense a Miyazawa administration is no more likely than an Abe administration, perhaps even less so.

However, the Miyazawa and Kawamoto factions have this in common: They are both LDP doves. They both have practically the same set of policies.

Nor are they unrelated in their networks of personal connections. Masayoshi Ohira, Miyazawa's patron and protector, got along well with Kaifu's benefactor Kawamoto. The friendship between these two went deeper than had been imagined.

Ohira, Kawamoto and Takeo Miki—who was Kaifu's political mentor—did not always get along fabulously, but Miyazawa and Miki trusted each other. When Miki was elevated to the prime minister's office by a bolt out of the blue, he made Miyazawa his foreign minister. Miki's real interest was political reform and foreign affairs.

When the Sato administration succeeded in having Okinawa returned to Japan, Miki, who was then foreign minister, insisted that the islands be made a nuclear-free zone like the main islands. This stance flabbergasted Prime Minister Sato. But Miki got his way; diplomacy was his specialty.

So when Miki became prime minister, he appointed Miyazawa to the important and valued post of foreign minister. The bond between Miki and Miyazawa is a telling one. Miki spotted Miyazawa's potential when he—Miki—was secretary general of the party in the Ikeda administration and Miyazawa was still under Ikeda's wing.

For these reasons, Miyazawa's position was an especially trying one when the party moved to oust Miki. Ohira, who was in league with Kakuei Tanaka, could participate without hesitation in the move, but not Miyazawa. It is likely that he looked on with mixed feelings as Miki and his protege Kaifu desperately fended off their opponents. When a subsequent administration came along, Miyazawa was frozen out by Tanaka.

Although the name of the target of the palace coup has changed, the plot itself remains essentially the same. But this time Miyazawa, as head of his own faction, is in a position to exercise his own power.

Miyazawa's only hope of becoming prime minister lies in the fact that the whole faction is pulling together toward such an end. Fortunately there is no one around who can trip him up.

Direct descendants of the *Anjikai* such as Koichi Kato, Tsutomu Kawara, Yukihiko Ikeda, Yuji Tsujima, as well as such "outside retainers" as Yohei Kono, Takeo Nishioka and Yoshio Hayashi, are all working hard to bring about a Miyazawa administration.

In this regard the abrupt ascent of Kono, who was not involved with the Recruit scandal, has irritated Kato's followers. If the truth be said this matter is a headache for Miyazawa.

Still, this headache is a minor one compared to the harsh infighting between Abe faction members like Mitsuzuka, Mutsu Kato and Shiokawa. But the squabble is still only a year or two old, and there is no telling what might happen in two more years if the possibility of setting up a Miyazawa administration is not within striking distance. A second Ohira-style coup d'etat is not out of the question.

Compared to Abe, Miyazawa is also in good health, and that can be said to be a factor in his favor. His self-control is far better than Abe's. Abe used to stay up all night playing mahjongg.

A heavy drinker in his younger days, Miyazawa now has the bottle completely under control. He is as healthy and as vigorous as Fukuda. Yet his good health and his solid bolstering of the Kaifu administration does not seem to bode well or ill for Miyazawa's chances of becoming prime minister.

Currently, he is quietly but diligently working to enhance relations with the Takeshita faction. Strengthening relations with the party's biggest faction will likely stand him in good stead should his chance ever come.

Watanabe Faction: Having at Last His Own Faction, He Prepares for the Post-Post-Kaifu Era

On 21 February, Michio Watanabe became the boss of a faction of his own—a long-standing goal of his. Yasuhiro Nakasone was gone due to the Recruit scandal, and Yoshio Sakurauchi, who held Nakasone's faction together, was appointed speaker of the lower house of the Diet after the election. What emerged as a result was the Watanabe faction.

In the past Watanabe had squared off against his boss Nakasone, and had fled the faction with Kabun Muto. He was working hard on a compromise that would let him back into the faction when his boss was downed, and those close to the situation felt that Watanabe had been presented with a golden opportunity.

Watanabe, never a man to mince his words, succeeded in spreading his name far and wide in Nagata-cho, where discretion is the rule. For this behavior some of the old guard of the faction called him vulgar and unbecoming. But Watanabe was unmoved by such remarks.

However, Watanabe's style grated when the consumption tax surfaced as an issue. The public was irritated by what they considered a breach of faith and by the way the measure was forced through the Diet. Not only were Watanabe's methods not to the people's liking; it actually generated a terrific outcry instead.

Thus Ihei Ochi, Yoshinobu Shimamura and Takashi Sasakawa begged Nakasone to gag Watanabe. Indeed, Watanabe's later pronouncements were toned down somewhat.

After the election was over, however, and Kaifu was assembling his administration, the Watanabe faction returned to the old habits of its new namesake. But Watanabe was in command of a faction for the first time and doubtless felt the pressure.

The issue of admitting into the cabinet Takeyuki Sato, implicated in the Lockheed scandal and found guilty, was deadlocked for over six hours. The result was that, for better or for worse, Kaifu could drive home his "Mr. Clean" image while Watanabe came out looking like the bad guy. But in the meantime the Watanabe faction had gained the powerful posts of MITI and Posts/Telecommunications.

Watanabe had been working to nominate Abe for some time now. In this sense his interests and those of Toshio Yamaguchi, newly defected from the New Liberal Club and now a member of the old Nakasone faction, were in harmony. Both were seen as pressing to get rid of Kaifu.

The push for an Abe administration probably grew out of the belief that a Watanabe administration would succeed it, at least, Watanabe himself thought so. Given that strategy, the least desirable thing would be for power to pass to the new generation of politicians, such as Ryutaro Hashimoto (of the Takeshita faction), Ichiro Ozawa (Takeshita faction), Yohei Kawano (Miyazawa faction) and Mitsuzuka (Abe faction). If that were to happen, Watanabe would be just about finished.

The Watanabe faction, therefore, had to prevent such a turn of events. In order to do so it had to do something to make a Watanabe administration a practical possibility.

They apparently thought that trashing Kaifu's image was the way to prepare the way for an Abe administration. That was probably the reason why they continued to oppose Sato's inclusion in the cabinet. Perhaps they thought that, in the end, Kaifu was bound to come to grief.

The reason they may have thought this was because Watanabe had joined forces with the Abe faction against Kaifu. They fought for six hours, but Kaifu came out the winner. Kaifu's tenacity apparently got to Watanabe, who let forth a stream of invective.

For example: In a television appearance on 2 February, Watanabe lit into Kaifu on the subject of the prime minister's role in the Recruit scandal as reported in a weekly magazine.

"A weekly magazine has stated that the prime minister himself received added funds from the Recruit company," Watanabe said. "If he did not receive such funds then he should say so plainly. Otherwise people will call him a liar, thus hurting the LDP as a whole."

The weekly in question was the 1 March issue of SHUKAN BUNSHUN, which alleged that Kaifu had received contributions from Recruit totaling Y26.3 million and that the figure acknowledged by Kaifu (Y14.4 million) was untrue.

Watanabe spoke like the leader of an opposition faction on a matter of internal party feuding. Moreover, the report had no clear substance; there were no documents to substantiate the charge.

But Watanabe pompously expounded his views via the mass media; the exposition was truly an unprecedented one. No wonder some within the party's bureaucracy began to wonder if Watanabe had lost his senses. Leaders of the Watanabe faction itself criticized Watanabe, suggesting he did not know how to act like a faction leader and that such pronouncements as he was making were best left to clean young political neophytes.

As for Yamaguchi, who could be said to be spearheading the drive to nominate Abe for the party presidency, he was busy opposing and then quashing Kaifu's attempt to set up an office to study the U.S.-Japan Structural Impediments Initiative (SII) talks.

After Kaifu returned from a surprise three-day meeting with President Bush, he (Watanabe) conspired with Ozawa to puncture the prime minister's initiatives. The Abe camp had clung to the idea that they would throttle Kaifu over the SII talks. This was Yamaguchi's strategy.

Kaifu, however, proved an even worse scoundrel himself. He got in touch with Shin Kanemaru, the Don of the Takeshita faction, and extracted from Kanemaru a statement that the Takeshita faction would do its utmost to see that U.S.-Japan economic frictions were successfully resolved.

The SII does indeed present the government with a thorny problem. But the U.S.'s demands on resolving the land crisis, for example, or on high domestic prices and the weakness of the antimonopoly laws, are consistent with the wishes of a large segment of the Japanese people.

Therefore any attempt to unseat Kaifu by poking a stick in the spokes of these reforms is only going to make public opinion more sympathetic to him. Such actions cannot be justified.

Moreover, there has almost never been an instance in which a cabinet fell because it was unable to implement its policies. It is nonsensical to trip up an administration on an issue in which the state may be put to difficulties if the administration fails. In this sense, there is a feeling that Miyazawa will not become prime minister, at least by means of this strategy.

At the same time, the Watanabe faction is quietly hoping for a linkup with the Miyazawa faction. For it was Miyazawa's mentor, Masayoshi Ohira, who provided Watanabe with the opportunity to flex his political muscle.

Ohira had his eye on Watanabe, who was a younger graduate of Ohira's university, Hitotsubashi. The *Onchikai* group was formed with Ohira's support. Ohira chose three "stars" of the Nakasone faction who he thought could head their own administrations. The three were Yoshibumi Muto, Takeo Fujinami and Michio Watanabe.

Unlike Nakasone's office, Muto's office still sports the colored paper that Ohira picked out. Muto is still considered "Ohira's disciple," and for precisely this reason he has good relations with the Miyazawa faction's Masayoshi Ito.

The Watanabe faction is somewhat closer to the Miyazawa faction than to any other. The Nakasone administration was formed because Zenko Suzuki gave up on his own administration, but in fact the Nakasone administration was in the Suzuki administration's own image.

For these reasons Watanabe is planning to move closer to the *Enchikai* using Muto, Oishi and Shimamura. Like an Abe administration, a Miyazawa administration promises Watanabe possibilities for the future.

Right now, Watanabe is pushing hard for an Abe administration. But it should be understood that he is also seeking a subterranean connection with a Miyazawa administration, should it emerge.

Takeshita Faction: Attempts To Unseat Kaifu Likely To Split Faction

The Takeshita faction is widely believed to have an obligation to form an Abe administration. But not everyone in the faction leadership and among the younger members of the faction believes this. Some members stress that while an Abe administration may be meaningful for Takeshita, it is their objective to create a Takeshita administration.

It is not easy to fully control a faction with 100 members; many of them have their own ideas about things. For this reason, however, there is a strong possibility that an Abe administration could be formed through the factions if only Kanemaru and Takeshita would agree to go all out for it.

Even so, both Kanemaru and Takeshita, like the Abe and Watanabe factions, are unable to move to unseat Kaifu.

For it was clearly the Takeshita faction that created the Kaifu administration. In that sense it was a government chosen by party election. That government has now been ratified by the public in a general election.

Neither Takeshita nor Kanemaru can now turn around and say to Kaifu that they have no more need for him and that he should leave, for the cabinet has been splendidly backed by the people.

When the Abe and Watanabe factions moved to include in the cabinet people implicated in the Lockheed and Recruit scandals, Kanemaru could but apply the brakes, telling them to let the prime minister do as he wished in the matter.

Barring a major policy failure or a scandal, however, they cannot let the matter rest there. Nor can they simply throw over the Kaifu administration, which is grappling with major national policy issues, simply because they want to install an Abe administration. So for the time being the Takeshita faction will have to labor to attain antithetical goals.

There are reasons why Takeshita cannot force the establishment of an Abe administration: Abe has health problems. Not a few Abe faction Diet members worry that Abe's health has deteriorated since the election. Unknown to most people, Takeshita himself worries considerably about Abe's health.

The Takeshita faction's immediate problem is unexpectedly serious. It is the feud between Ichiro Ozawa and

Ryuichi Hashimoto. Inside the faction it is rumored that Ozawa will succeed Kanemaru and Hashimoto will succeed Takeshita, but the battle for control of the Takeshita faction between these two men is very bitter.

Both men's womanizing is much commented on in the weekly magazines, but it is more than likely that each side started the rumors about the other. Raizo Matsuno, who was defeated in the last election, has said that Hashimoto already has the allegiance of 30 faction members.

During the election the tow men could not have behaved more differently. Ozawa stayed at party headquarters handing out money, while Hashimoto traveled the country. According to a faction source involved in the election, there were many more requests for support from Hashimoto. At any rate, to perform these unwelcome tasks Ozawa seemed to use money while Hashimoto seemed to use his physical presence.

Hashimoto, who has been secretary general and minister of finance, has continued to cut into the power of the socialist-labor *zoku* [a group of Diet members who exercise in a particular field policy-making expertise and have contacts generally acquired through service as chairman or vice chairman of the appropriate party polcy deliberation committee] and transportation *zoku*. There is no doubt that his ability to raise money has been on the increase. In all probability his support of younger politicians extends not only to lending his presence but lending them funding as well.

At any rate, Takeshita would like to return to power if he can. Like Kakuei Tanaka before him, he as yet has no thought of letting go of his faction. The best thing that could happen for him would be for the Ozawa and Hashimoto camps to cancel each other out. Takeshita remains at the head of the faction because the two forces nicely neutralize each other.

However, it is questionable whether that balance will hold up. Makoto Tamura, a powerful moderate inside the faction who was promoted to speaker of the lower house of the Diet, is still quite young. He leans toward Hashimoto. According to some theories, Tamura moderates the battle between Ozawa and Hashimoto. The faction's stability hinges on his actions, and this, too, is a headache for Takeshita.

Kanemaru's poor health is also an element that controls the direction of the Takeshita faction, and is likely to effect Ozawa's chances of success. Kanemaru has recently taken up mahjongg at least in part to fend off senility. Although he was very active during the election, he did not forget to get a good rest in Tokyo.

At any rate, it is difficult to imagine Takeshita returning to power. It is equally hard to imagine Abe as prime minister, due to his poor health. Ozawa and Hashimoto may or may not be future possibilities.

The young members of the faction—in fact the core of the faction—harbor dream-like ideas of attaining first a Hashimoto and then an Ozawa administration. But reality suggests that these are indistinct possibilities at most. Kaifu has been called a hostess borrowed for the occasion, but none of the four factions seems likely to replace him.

LDP's Setback in Fukuoka 'May Undercut' Kaifu

OW1806011790 Tokyo THE DAILY YOMIURI in English 16 Jun 90 p 3—FOR OFFICIAL USE ONLY

["Political Beat" column by HItoshi Matsumoto" "Fukuoka Defeat May Shake LDP"]

[Text] Ripples are passing through Japan's political scene, following the Japan Socialist Party's crushing victory over the ruling Liberal Democratic Party in the House of Councillors by-election in Fukuoka-ken Sunday.

The by-election, called after the death of former upper house Vice President Akira Ono, was expected to be a tough fight between Shigeko Mieno, 64, vice chairwoman of the JSP's Fukuoka-ken chapter, and Norihiko Sumiyoshi, 43, former LDP Fukuoka prefectural assembly member. The LDP suffered a grave setbnack in the election when Mieno beat Sumiyoshi by a wide margin.

Determined to make the Fukuoka win the first step to recovering its upper house majority, Prime Minister Toshiki Kaifu visited Fukuoka three times during the election campaign. (No other prime minister has ever supported the party candidates running in by-elections by visiting the candidates' constituency so often.)

Other influential LDP powerbrokers, including LDP Secretary General Ichiro Ozawa, visited Fukuoka almost daily to campaign for Sumiyoshi.

Despite vigorous efforts, the LDP lost the election and Ozawa certainly lost his credibility with the party as its mercurial election campaign strategist.

The Fukuoka by-election was the first serious defeat the Kaifu-Ozawa leadership has suffered and many political experts fear it may seriously undercut their party influence.

The JSP, while winning a landslide victory, has nevertheless found its success to be a mixed blessing. A JSP Diet Administration Committee member laments that Sunday's victory has now made it impossible for the party to work out concessions on the consumption tax with the LDP.

"The victory was an overkill but it clearly demonstrates that most of the general public want the consumption tax scrapped. This, however, made it more difficult for us to work out easy compromises with the LDP," he said. Previously, the JSP had planned to dump both the opposition-sponsored bills to scrap the consumption tax and the LDP-sponsored bills to review the consumption tax and then to work out a compromise bill with the LDP to revise the unpopular 3 percent tax.

"The most ideal scenario we had in mind was the party narrowly losing to the LDP, which would certainly have made it easier for us to change our stance on the tax issue," a JSP executive notes. But the situation is more complex and serious with both Komeito and the Democratic Socialist Party. These two middle-of-the-road parties could not decide on whether to challenge the JSP in the Fukuoka by-election and at the same time did not declare their all-out support for Mieno.

The DSP sat on the sidelines hoping that the LDP would win the election. DSP Chairman Keigo Ouchi had calculated that the LDP victory would prevent the JSP from becoming too powerful in the opposition camp and enhance the DSP's influence in Diet deliberations.

Both Komeito and the DSP had hoped that the LDP would win the election, thus ending the long controversy over the consumption tax. After the election, these middle-of-the-road parties hoped to improve their ties with the LDP, without offending public opinion. Unfortunately for them, however, the public supported the JSP, which wants the consumption tax scrapped.

This unexpected turn of events has certainly driven both Komeito and the DSP into an awkward corner. Now they are both concerned about offending the public by showing more understanding toward the LDP and its consumption tax policy, for fear of losing in next year's local elections.

"At the same time, we can never return to form a joint front with the JSP," said a senior DSP official.

Meanwhile, the Japan Communist Party refrained from challenging the JSP in Sunday's by-election, in an effort not to disturb the JSP-JCP joint election front for next year's gubernatorial election.

Some political experts speculate that Mieno captured over 100,000 of the JCP's votes in Sunday's election. Perhaps, the JCP was the true winner in the Fukuoka by-election, certainly in regard to its success in improving relations with the JSP.

Kaifu Said in Full Control of Government, LDP

OW2006104190 Tokyo THE JAPAN ECONOMIC JOURNAL in English 23 Jun 90 p 9—FOR OFFICIAL USE ONLY

["Political Scene" column article by Toshihiro Ando, NIHON KEIZAI SHIMBUN senior staff writer: "Kaifu in Full Control as Houston Summit Nears"]

[Text] Prime Minister Toshiki Kaifu is said to be confidently preparing for the annual summit meeting of advanced industrialized countries in Houston, Texas, July 9-11.

Prior to the summit, he is scheduled to meet with U.S. President George Bush to discuss Japan-U.S. bilateral issues, the Asian situation, and other pressing matters. That's not bad for someone whose political career was not expected to survive long enough for him to even make it to the summit.

Kaifu, it seems, is in full control of his administration and the ruling Liberal Democratic Party, and is set to hold on to the reins of power in a stable manner in the coming months.

What turned things around for Kaifu, of course, were the results of the Feb. 18 general election, when the LDP won a big victory. Since then, the administration's popularity has steadily risen, as seen in recent polls. Support for the cabinet now stands at 50-60.

Those polled have cited Kaifu's relative youth, freshness, and honesty. Even his weak position within the LDP is considered a plus by much of the public. As a result of this support, there is little movement within the LDP to pull Kaifu down from power.

Another big merit for Kaifu is that he is being supported by three strongmen of the Takeshita faction, the largest in the LDP. These include former Premier Noboru Takeshita, Deputy Premier Shin Kanemaru, and LDP Secretary General Ichiro Ozawa.

For one thing, Kaifu and Takeshita have been very close from the beginning. And Kanemaru, an LDP powerhouse who has built up a wide network of support both in and outside the party, declared immediately after the general election that he will "support the Kaifu administration with all his power."

Kaifu's relations with Ozawa, which had been strained earlier, are now going smoothly. The three apparently feel they can better influence Kaifu than they could Shintaro Abe, the former LDP secretary general who has widely been regarded as a successor to the premier.

One more merit for the administration is the support Kaifu has enjoyed from President Bush and Secretary of State James Baker. Bush apparently was impressed with Kaifu's personality in their two meetings, and seems to have concluded that Kaifu is a man who can implement U.S. demands.

To be certain, the Kaifu administration is confronted with a number of knotty domestic and diplomatic issues, including electoral reform, a review of the controversial Consumption Tax, the Japan- U.S. Structural Impediments Initiative talks, and rice import liberalization. Of these, electoral reform is perhaps the most critical to the cabinet, since Kaifu has publicly pledged to risk his political survival upon parliamentary approval of the reforms.

Despite such problems, the administration will likely continue to hold the reins of power as long as the present framework of political support for him continues.

Not only is it likely that Kaifu will stay in power until the fall of next year, when his term as LDP president expires, but perhaps even beyond that.

Miyazawa Said Back in Political Limelight

OW0706070890 Tokyo THE JAPAN TIMES in English 6 Jun 90 p 3—FOR OFFICIAL USE ONLY

[Unattributed article: "Miyazawa Emerges from Political Hiding"]

[Text] Kiichi Miyazawa, a former finance minister and one of the ruling Liberal-Democratic Party's [LDP] most eager aspirants to the post of prime minister, is coming back into the political spotlight after 18 months of near total seclusion.

Miyazawa plans to visit the United States in mid-July as head of a suprapartisan delegation of Diet members that will include senior politicians from four non-Communist parties as well as those from the LDP. "Miyazawa is well versed in foreign affairs, especially U.S. policy, and has many friends in Washington. So, he is the best qualified to head the parliamentary delegation," an LDP official said.

Miyazawa has kept a low profile since resigning as finance minister and deputy prime minister under then Prime Minister Noboru Takeshita in December 1988. The move was to take responsibility for the fact that his secretary received preflotation Recruit Cosmos stocks.

Recruit is a major information conglomerate at the center of an influence-peddling scandal that surfaced in the summer of 1988 and plunged national politics into prolonged turmoil. It culminated in the stunning LDP defeat in last July's Upper House election.

Shintaro Abe and Michio Watanabe—Miyazawa's two most-powerful party rivals for the prime minister's post—were also tied to the Recruit scandal and no longer hold any official positions. But Abe, a former LDP secretary general, and Watanabe, a former chairman of the LDP's Policy Affairs Research Council, both began personal diplomacy campaigns earlier this year in an apparent bid to regain their lost political ground.

Their campaigns have raised concern among members of the LDP faction run by Miyazawa, who at 70 is older than either Abe or Watanabe and appears to have only a few years to achieve his ambitions.

Making overseas trips and demonstrating an ability to handle international problems is a traditional tactic used by Japanese politicians struggling to restore political footing damaged by domestic problems. Abe, for example, scored high points on the foreign policy front when he visited Moscow in January.

He proposed to Soviet President Mikhail Gorbachev an eight-point plan for expanding personnel exchanges as a way to help break the stalemate in bilateral relations. Japan and the Soviet Union have been locked in a dispute over control of several islands northeast of Hokkaido that were taken by the Soviets in the closing days of World War II.

Abe will be in the United States later this month to celebrate the 30th anniversary of the 1960 Japanese-U.S. Security Treaty. He plans to visit Moscow again in September.

Watanabe launched a visit to China in late April and has met with several Chinese leaders, including Jiang Zemin, general secretary of the Communist Party. Watanabe went on to Vietnam before returning to Tokyo. The trips were important because China's relations with Japan and Western industrialized nations have been virtually frozen since the bloody suppression of prodemocracy demonstrators at Beijing's Tiananmen Square one year ago. Vietnam is a major party to the more than decade-old Cambodian conflict.

Watanabe also visited Washington last month and met with President George Bush and other American leaders.

The planned suprapartisan parliamentary delegation was proposed by Koshiro Ishida, chairman of the No. 2 opposition party, Komeito, to Prime Minister Toshiki Kaifu during a May 15 meeting.

Miyazawa's selection as the delegation chief drew particular attention in Tokyo's Nagatacho, or Japan's equivalent to America's Capitol Hill, because it was LDP Secretary General Ichiro Ozawa who recommended Miyazawa for the job.

Ozawa belongs to the LDP faction led by former Prime Minister Noboru Takeshita, which as the party's largest faction has decisive power to choose prime ministers. The LDP factions headed by Abe and Watanabe have both maintained much more amicable ties with the Takeshita group than has the Miyazawa faction.

The Miyazawa faction angered the Takeshita faction when it unsuccessfully attempted to make Ryutaro Hashimoto, then LDP secretary general and a senior member of the Takeshita group, run last summer for LDP president without the Takeshita faction's consent.

The Takeshita faction, which has several potential candidates for prime minister, inclulding Hashimoto and Ozawa, did not run its own candidate in that election because it feared damaging intrafaction unity. Instead the faction backed Kaifu, a candidate from the smallest LDP faction led by former state minister Toshio Komoto.

Those who become LDP president automatically become prime minister, because the party holds a comfortable majority in the powerful Lower House.

Ozawa's choice of Miyazawa as head of the parliamentary delegation to the United States reflects recently improved relations between the previously estranged factions.

Nagatacho pundits also say Miyazawa is trying to join the competition for the post-Kaifu prime ministership.

Miyazawa met privately with Ozawa and Shin Kanemaru, chairman of the Takeshita faction, separately earlier this month. Furthermore, LDP sources said close Miyazawa aides are moving behind the scenes to arrange a secret tete-a-tete between their boss and Takeshita as a conclusion to the current rapprochement.

Komeito Statement Triggers Rice Market Debate

OW1806023090 Tokyo MAINICHI DAILY NEWS in English 16 Jun 90 pp 1, 2—FOR OFFICIAL USE ONLY

[By MAINICHI SHIMBUN]

[Text] The Komeito has broken a longstanding taboo among political parties by calling for open debate on whether Japan should open its rice market, setting off a series of reactions in the other parties, all of which have up until now staunchly opposed any form of rice liberalization.

Former Prime Minister Noboru Takeshita showed signs of thinking along the same lines when he said Wednesday that the Liberal-Democratic Party (LDP) should reconsider its rice policy, in light of the changes in public opinion, when the report from the Uruguay Round of multilateral trade talks, under the General Agreement on Tariffs and Trade (GATT), is issued.

The leading opposition party, the Japan Socialist Party (JSP), however, decided on Thursday to establish a special group within the party to devise ways of blocking the opening of the rice market, saying it would fight the issue to the bitter end.

The Japanese Communist Party (JCP) also announced that it would set up a similar group.

All political parties are opposed to the liberalization of Japan's rice market, and Japan has adamantly refused to open it at the Uruguay Round of negotiations, citing the need for food security. But with increased internatioinal pressure to open its rice market expected to arise out of the GATT discussions to be held in July, it seems Japan can no longer avoid a rethinking of its rice policy.

Although Takeshita resigned as prime minister a year ago, he is still one of the most powerful politicians in the LDP. No one in the party has yet openly criticized or supported his statement. In fact, there is a growing sentiment among middle-of-the-road LDP Diet members that a policy of total self-sufficiency in rice is impossible given the current international situation.

Further evidence of this trend in the LDP was evidenced in Takeshita's praise of the Komeito's stance, which he called "brave." "We have to take a serious look at how to reconcile public opinion in favor of liberalization of the rice market with existing interests," Takeshita said.

Komeito Chairman Koshio Ishida articulated a party opinion that the rice market should be liberalized, although some Komeito members felt that the party should not make a policy on the issue before local elections take place next spring, or at least until the results of July's GATT talks are known.

Until recently, the Komeito had been publicly opposed to the liberalization of Japan's agricultural market. But at the party's convention last April, Komeito Secretary-General Yuichi Ichikawa said that the situation where all political parties were united in their opposition to importing rice was strange from an international point of view.

With this, Komeito policy-makers started studying the issue. The Komeito counts much of its support in urban areas where consumer intrests tend to outweigh those of farmers.

The JSP used criticism of the LDP'S agricultural policies to garner substantial support from farmers in the last two national elections, and the party is afraid of losing that support if it softens its stance on the issue. As part of its strategy, the JSP plans to send representatives with producers' and farmers' groups to GATT Headquarters in Geneva.

The JSP also intends to petition 10 million signatures and dispatch JSP Diet members to speak in agricultural areas.

The JCP will start conducting opinion polls about rice in farming communities in nine prefectures this month.

While there has been a certain amount of support in the Democratic Socialist Party (DSP) for discussiong a partial liberalization of the rice market, because few DSP legislators are dependent on the farm vote, DSP Chairman Keigo Ouchi said that Japan should not liberalize its rice market because of foreign pressure. "Our agricultural policy should come first," Ouchi said.

Editorial on Komeito Studying Rice Policy

OW1606120990 Tokyo THE DAILY YOMIURI in English 14 Jun 90 p 6—FOR OFFICIAL USE ONLY

[13 June editorial: "Realistic Rice Policy"]

[Text] Demonstrating its responsibility as a political party, Komeito has started a detailed study on what impact the opening of the rice market will have on Japanese farmers and what relief measures will be necessary.

Komeito is taking this action, although somewhat belatedly, because of the growing belief that at least partial opening of the market is inevitable considering the severe developments at the Uruguay Round of trade talks. Komeito deserves praise as the first party to adopt a realistic policy on rice.

Two years ago, both houses of the Diet passed a resolution against the liberalization of rice imports. Since then, all parties in chorus have insisted that not a grain of foreign rice will enter Japan. The parties then were wooing the farming vote, but were warned that Japan's argument for self-sufficiency in rice as the nation's "food security" policy would be unacceptable internationally.

Stubborn Position

Komeito's proposal has come under fire both within the party and from agricultural organizations. However, the rice issue should be open to free and constructive discussion.

Negotiators hope to reach a basic agreement at the Uruguay Round by July, but the United States and the EC are still engaged in delicate bargaining over the U.S. proposal to replace trade barriers with a new tariff system. They are, however, at least trying to reach a compromise on agricultural products.

Meanwhile, Japan stubbornly insists on maintaining its policy of self-sufficiency in rice and refuses to even join the negotiations. The Diet resolution has become the major obstacle for Japan to engage in trade negotiations in a constructive manner, increasing its isolation in international society.

Of course, we should respect Diet resolutions. But should Japan be hamstrung by this resolution when the situation surrounding this issue has changed drastically at home and abroad?

Shortsighted Views

Komeito's Secretary General Yuichi Ichikawa has stressed that national policy is not subordinate to Diet decisions and, therefore, th rice policy can be altered. Nevertheless, the Liberal Democratic Party and Japan Socialist Party rigidly adhere to complete self-sufficiency in rice, inviting severe international criticism.

No Japanese would argue that Japan does not need domestic agricultural production. However, they, too, would not insist on a total ban on foreign rice and remain content with rice prices far above the international level. It is irresponsible for political parties to advocate self-sufficiency in rice without a clear perspective, ignoring international circumstances and the voices of consumers.

What the government should do is to set a level for foreign rice imports and take urgent measures to support and restructure Japanese rice farming. Political parties take extreme positions on rice for immediate gains, such as winning the farming vote in next spring's local election, but are, in fact, endangering the future of Japanese agriculture.

Resistance to Rice Market Opening 'Waning'

OW1806001790 Tokyo THE JAPAN TIMES in English 15 Jun 90 p 10—FOR OFFICIAL USE ONLY

["Analysis" column by staff writer Hisane Masaki: "Opposition to Opening of Rice Market Waning"]

[Text] Unified Japanese political resistance to the opening of the nation's rice market is crumbling as the crucial Uruguay Round of world trade liberalization talks is nearing its scheduled completion in December.

In a nation where farmers, especially rice-growers, traditionally form a formidable political force, all political parties have cautiously refrained from talking publicly about a posible opening of the rice market to foreign competition. But Komeito, the second-largest, centrist opposition party, has broken that political taboo. Komeito's move reflects a growing feeling in Japan that opening the rice market is unavoidable, given the Uruguay Round and rising consumer demand for lower prices.

Komeito on Monday opened a formal review of its policy of rejecting rice imports and began considering ways to protect domestic rice growers against the effects of possible market opening. The Komeito leadership intends to favor annual imports of between 300,000 and 500,000 tons of rice, sources said. Japan's total consumption of rice comes to 10 million tons.

Komeito Secretary General Yuichi Ichikawa told a meeting of party Diet members on Monday that a resolution adopted unanimously in 1988 to oppose liberalization of the rice market is not a "golden rule" that must never be changed. Because of the nation's basic ban on rice imports, Japanese consumers pay 6.5 times more than the international average for rice.

The last move by Komeito, apparently aimed at winning nonfarm voters for the sagging party, was praised on Wednesday by former Prime Minister Noboru Takeshita. He called it "courageous" and said Japan should begin preparations in view of the fact that it may be forced to open its rice market.

These remarks by Takeshita—who as head of the largest faction within the ruling Liberal-Democratic Party [LDP] retains considerable influence on domestic politics—may affect the Japanese stance on the rice issue, observers said.

The country's rice market has been a major source of trade friction with the United States. Washington is pressing Tokyo to agree to allow rice imports in the Uruguay Round or face retaliation. But this has only brought adamant rejections, based on "food security needs."

Agriculture Secretary Clayton Yeutter, in a Washington meeting with a visiting delegation of LDP Diet members Wednesday, reiterated the U.S. demand and warned that if Japan retains its closed-market rice policy, the Uruguay Round will not be completed. The U.S. is demanding the complete liberalization of world farm trade in the round, which is being sponsored by the 97-nation General Agreement on Tariffs and Trade.

Although the round is to end in December with a Cabinet-level meeting, its success is in doubt, given participants' sharp differences, especially over reforms in farm trade.

Until the lower house elections in February, the government was secretly considering a compromise—giving foreign exporters limited access to the Japanese rice market by setting an import quota.

The U.S. is not demanding the complete liberalization of the Japanese rice market, and the idea of minimum access would satisfy Washington while limiting damage to domestic producers, a government source said. But the lower house election made such a compromise quite difficult, the source added. In their campaigns, the LDP and opposition parties, fearing a loss of farm votes, pledged that they would "oppose importing even a single grain of rice," then drew criticism for being "irresponsible."

Prime Minister Toshiki Kaifu, who has declared since taking office in August 1989 that he will give top priority to improving the lives of consumers, faces a politically risky decision by year's end over whether to open the rice market, some analysts say.

Economic

Newspaper Discusses Government Debts

OW1506112390 Tokyo THE JAPAN ECONOMIC JOURNAL in English 16 Jun 90 p 1, 5—FOR OFFICIAL USE ONLY

[By THE JAPAN ECONOMIC JOURNAL Staff Writer Waichi Sekiguchi: "Deep Debt Hinders Public Spending Boost"]

[Text] Amid all the talk about the continuing strength of Japan's economy, one key fact is usually forgotten: The government is awash in debt, and has been since the mid-1970s. And despite the Ministry of Finance's strenuous effort to curb the massive debt, it appears to be a losing battle.

Almost inevitably, the value of the nation's outstanding bonds—Y164 trillion in 1990—will grow to record levels this decade. How much and how soon that deficit will rise are sensitive questions, particularly because of pressures placed on Japan by the U.S. in recent Structural Impediments Initiative talks.

To Washington, Japan isn't spending enough on "quality of life" infrastructure projects, such as roads, sewers and parks. And it has proposed that Japan earmark 10% of gross national product within five years, or at least Y500 trillion over the next 10 years for public investment. The U.S. hopes that such social infrastructure spending will eventually reduce Japan's current account surplus and further open Japan to foreign goods and services.

Last week, after fiscal 1990's Y66.2 trillion budget became effective, Japanese bureaucrats and politicians almost immediately began debating the fiscal 1991 budget and the U.S. suggested 10-year investment plan. In both areas, the question of whether Japan should reduce its debt or spend more on pressing social needs is uppermost.

On one side of the debate is the conservative Finance Ministry, which believes additional government spending may induce inflation and impede its fiscal reconstruction program. In fiscal 1989, the government paid some Y11 trillion in interest on those bonds, or 18.4% of total fiscal spending.

This year, for the first time in 15 years, the ministry stopped issuing deficit-covering bonds. However, construction bonds remain the major way of financing public investment.

Opposing the Finance Ministry are a welter of powerful special interests, including the U.S. whose interests appear set to prevail.

Within Japan, for example, bureaucrats at the Ministry of Construction and the Ministry of Transportation, supported by vote-hungry politicians and their constituents, want the government to allow construction of infrastructure projects. They point out that the government has generated some Y8 trillion more than expected in tax revenue the last three years largely because of favorable corporate profit results and increasing property taxes.

At the same time, they complain that Japan's public investment the past decade has been restricted by the Finance Ministry's strict "zero growth" policy for most projects. "That's why we now have to face many inconveniences, such as crowded roads," says Makoto Taketoshi, planning director in the Construction Ministry's policy planning division. "To make up for gaps in social capital investment, we need to boost the budget."

Agenda for the 1990s

To the ministries, such U.S. suggested spending level is appropriate.

When the Finance Ministry and the Economic Planning Agency sought budget requests for public works from ministries last month, they amounted to some Y550 trillion. The Ministry of Construction, Japan's largest public works investor, claims the largest share—some Y300 trillion. The Ministry of Transportation requested Y50 trillion, or twice its investment for the last 10 years.

Despite such pressures, the Finance Ministry has little enthusiasm for boosting public investment. "In a sense, Japan's budget is still in a convalescent stage," says Yoshio Nakajima, director of coordination division in the ministry's budget bureau.

"Public spending should be reserved as a way to prop up a stagnating economy. If you continue to increase outstanding bonds to expand public investments, you can't handle fiscal policy when it really becomes necessary," he says.

In fiscal 1990, the government plans to issue Y5.6 trillion worth of constructtion bonds, or 8.4% of total revenue. "Of course, the government budget is different from ordinary households. But it is ridiculous for the government to pay one-fifth of its total expenditure for interest every year," says Kenji Mizutani, managing director and chief economist at Tokai Bank.

Another possibility is that if Japan increases its public investment to 10% of GNP, the economy will heat up and spur inflation and further labor shortages, the Finance Ministry's Nakajima says.

Tokunosuke Hasegawa, executive director of the Research Institute of Construction and Economy, disagrees. "The Ministry of Finance's worries about inflation and the labor shortage are not valid," he says.

Hasegawa argues that if prices of domestic products rise, the Japanese will simply start to buy import goods. And even if the government expands public investment, there will not be a serious labor problem because private construction has already peaked, he says.

"The question is not how much Japan should invest but where it should invest," adds Yoshikazu Kano, president and chief economist at the Research Institute on the National Economy. Kano says it is almost impossible for the government to reduce the level of outstanding bonds unless it sells the stock of public organizations.

Rigid Budget System

In fiscal 1990, the Construction Ministry accounted for 68.2% of total public works expenditures, followed by 22.1% at the Ministry of Agriculture, Forestry and Fisheries and 6.3% at the Ministry of Transportation.

Because of the Ministry of Finance's zero ceiling on each ministry's budget, these budget shares have been fixed for almost 10 years. During that time, some projects have lost their significance, says Kano. "After all, such a rigid budget system has caused a lot of waste in government expenditure," he says.

Adds Tokai Bank's Mizutani, "Now is a good opportunity to overhaul the entire bureaucray and budget system.

Government Urged To Speed Up Deregulation

OW1906103190 Tokyo ASAHI EVENING NEWS in English 18 Jun 90 p 6—FOR OFFICIAL USE ONLY

[17 June editorial: "Speed Up the Deregulations"]

[Text] In a move aimed at eventually deregulating the nation's financial institutions, the Kaifu government, following its recent decision to allow individual banks to run commercial advertisements on radio stations (in effect since the first of this month), has announced that, starting in January 1991, banks will be permitted to run commercials on television.

The liberalizing of Japanese financial institutions broadly comprises two major areas. One involves the deregulating of interest on bank deposits. And the other includes not only the doing away of barriers that presently strictly restrict the lines of business city banks, security firms and insurance companies can engage in but also allowing them to engage in mutual crossover activities.

Regarding banks entering the securities market, the Securities and Exchange Council, an advisory body to the finance minister, has proposed in an interim report that the banks be allowed to enter the capital market, provided they do so via subsidiaries. Though concrete measures have yet to be worked out, we wish to make the following two requests to the government and the nation's financial circles at this point.

First, we want the authorities to announce in advance the date for implementing the deregulation measures and that preparatory steps be taken toward the date targeted in a systematic way.

Second, the small- and medium-sized financial institutions need to be fully aware that business reorganization inevitably will become unavoidable because, after deregulation takes effect, each individual company alone will be responsible for its success or failure in business.

Hitherto, the government has implemented all along a protective policy aimed at providing safety nets for the bottommost, small-scale financial businesses, be they banking, securities or insurance. Since deregulation means the doing away of such veils of protection, its implementation necessarily will involve pain and suffering.

The Financial Problems Study Council (FPSC), a private advisory body to the director of the Ministry of Finance's (MOF) Banking Bureau, has earlier proposed broad guidelines regarding the deregulating of interests on bank deposits. The FPSC recommended: (1) that studies be made for the deregulation of interests on ordinary savings as well as time deposits; and (2) that financial institutions adversely affected by deregulation arrange for such surival formulas as mergers and business affiliations with the central and local governments giving them support.

Deregulating of interests on savings and deposits has already been carried out [not] only in the United States and Europe but also among the Southeast Asian countries. In the case of Japan, work has only just begun on decontrolling the interests on large bank savings-thus, when compared to the other countries, the Japanese tempo is far too slow.

So, it is regrettable that the authorities in Tokyo failed to give any clear indication of a target date for implementing the deregulations recommended by the FPSC. Even during the recently held Japan-U.S. consultation on financial matters, the Japanese side did not set any firm date although Washington strongly demanded that deregulatory steps be started within a year.

The background reason for Tokyo's reluctance is the fact that the nation's relatively weak small- and medium-sized financial institutions-such as credit unions and associations-have been strongly lobbying for a delay of five to six years before deregulation takes place.

It is said the MOF privately plans to implement the recommended deregulations three years from now in 1993. Even accepting that the U.S. demand that deregulating be started within a year is premature, we feel the MOF should not only speed up its pace but also clearly announce the date of implementation.

Deregulation means the possibility of giving birth to managerial and entrepreneurial ingenuity. The doing away of barriers presently separating banking, securities and insurance will admittedly hike the cost of business—in the form of having to pay out higher interests on savings and deposits—but we feel this is a necessary hurdle that can be overcome by developing entirely new commodities that embrace the advantages inherent in each of the three different lines of financial business. It will not do for the individual industry to be a stickler about defending its own vested rights. We urge all three to tackle deregulation from a broad perspective.

* Survey of Effect of 'Triple Low' on Companies

902A0166A Tokyo SHUKAN TOYO KEIZAI in Japanese 14 Apr 90 pp 48-57—FOR OFFICIAL USE ONLY

[Report on effect of "Triple Low" including comments by Tadashi Ito, Sumitomo Corporation president, and Takashi Imai, Nippon Steel vice president]

[Text]

- Advanced orders in export businesses have fallen off sharply, but they are once again enjoying the benefits of a weak yen.
- Export drive has been ruled out. There will be no retreat from overseas production. Plans for capital investment in equipment remain unchanged.
- Banks are shackled by regulations of the Bank for International Settlements [BIS]. Special fund investments have dropped off once again.

In a short, one-and-a-half year period, the value of the Japanese currency has depreciated by more than 35 yen, and the average price per share on the Tokyo stock exchange has plunged by 10,000 yen. There has also been a 2.75 percent hike in the official rate.

Setting aside the drop in stock prices, a weak yen and high interest rates have put a great burden on companies that import large amounts of raw materials or rely heavily on bank loans.

An example of such a company is Tokyo Electric Power which has the largest number of outstanding short-interest loans in Japan. (See Table 2 on page 54.)

Tokyo Electric Power initially welcomed the rapid rise in short-term interest rates in the fall of 1988 as an opportunity to redeem high-interest company bonds. Because it was able to convert these bonds to lower rates with the help of domestic companies in January of 1989, it was hardly burdened by the rise in interest rates. However, Kosui Fukushima, managing director of Accounting at Tokyo Electric Power, predicts that the same will not be true of fiscal year 1990. "This year, because of increases in high-interest debt conversion, new regulations on borrowing, and interest on new issues of corporate bonds, interest payments will swell to over 50 billion yen."

Because of the price of raw materials such as oil and liquid natural gas, general expenditures, including financial expenditures, are predicted to increase to 17.5 percent at Tokyo Electric Power. Every time the Japanese currency depreciates by one yen, operating profits for the year decrease by 4 billion yen. Assuming the international exchange rate drops by 30 yen, the company stands to lose 120 billion yen. If prices and demand increase, rising interest payments and the negative effects of the depreciating yen will wipe out operating profits.

Calm From Unexpected Financial Strength

Recently, there has been a fortunate decrease in the number of companies suffering from the double punch of a weak yen and high interest rates. Like Tokyo Electric, Nippon Oil relies heavily on imported raw materials. The company has been burdened by the weakening yen. It has been especially hard hit by the rise in petroleum prices. Beginning this April, the petroleum industry will be locked in heated competition with the abolition of restrictions on the construction of service stations. Because of this competition, it will be difficult to pass rising costs onto consumers.

However, higher interest rates are a boon to Nippon Oil. Investment of excess capital could reach 850 billion yen, and from the beginning of the year and over the whole period, the company will make a strong shift to fixed interest-bearing securities.

The company had invested 200 billion yen in a specific trust cash fund. However, following Black Monday 1987, the fund continued to perform poorly, and is now at the 50 billion yen level. Because the stock was listed at a 10-15 percent level during this period, losses were slight in the wake of the stock market crash. A spokesperson for Nippon Oil says that there was a steady accumulation of interest on investments because of the rise in interest rates on fixed interest-bearing securities.

Takashi Imai, vice president at the new Nippon Steel, is very upbeat. "Until Janaury of this year, a total amount of 800 billion yen in redeemed loans has been converted. Investment in plant and equipment, and investment in new businesses has been supported, by and large, by this cash flow. The company has many short-term loans which it has converted and reinvested. The rise in interest rates has been a boon to us. A one percent hike in the prime rate would have a negligible effect on us." (See comment by Takashi Imai)

After the 1985 Plaza Accord, the finances of big business were strengthened by high stock prices and low interest rates. Because of this period of strong finances, it appears that big business has the resources to weather the present triple low.

Export-Dependent Companies are Floating

Despite fluctuations in advanced orders, companies are rediscovering the advantages of a weak yen.

The weak yen has become a big plus for companies which depend largely on export revenues. Table 1 lists the top 50 Japanese companies most reliant on exports.

For Minolta, which is ranked eigth on the list, dollar-based and mark-based shipments make up a majority of its exports. The company had hoped for a high-dollar, high-mark, low-yen scenario, and had its way.

Masamoto Nishizawa, a managing director at Minolta, smiles complacently. "If the current exchange rate of 160 yen to the dollar continues, annual unconsolidated profits will rise 5 billion yen, and consolidated profits will rise 10 billion yen."

However, Minolta does face problems with this scenario. For example, the company is concerned over the drop in the price of manufactured goods on account of the weak yen. Minolta is also worried about the rising cost of imported components and overseas development. Mr. Nishizawa is particularly troubled by the decrease in the price of manufactured goods. "There is some concern about foreign rivals of Japanese firms. They could use the weak yen to launch a price war." In the case of cameras, prices nearly doubled overseas during the period of the strong yen. Gradually the difference between domestic and foreign prices disappeared. It is this point that is worrisome to executives like Nishizawa.

Fluctuations in Advanced Orders

In the case of Sony, consolidated overseas sales reached 1.4 trillion yen for an overall sales increase of 68 percent. (Sony is ranked 28th on an unconsolidated basis in Table 1.) About 60 percent of these sales were dollar-denominated, amounting to $8-9 billion annually.

When the yen depreciated in value the cost of overseas manufacturing, and the amount of repatriated earnings, swelled. A spokesperson in the president's office at Sony said that the effects of the weak yen "cancelled themselves out." However, Sony stands to make an additional 3 billion yen in annual operating profits every time the exchange rate weakens by one yen. In 1989, the effects of the weak yen were minimal, as advanced orders remained unchanged. However, in just the first quarter of 1990, the company took in about 40 percent of anticipated advanced orders for the year, and afterwards had to stop taking advanced orders. If the exchange rate continues to remain in the 160 yen range, Sony's profits should increase by 60 billion yen.

Unlike Minolta and Sony, Hitachi's export rate is about 23 percent. Dollar-denominated exports earn the company $3.4 billion. Hitachi's FY90 budget set the company's internal exchange rate at 140 yen to the dollar. A 20 yen depreciation of this internal exchange rate (to 160 yen) increases income by 68 billion yen. A Hitachi spokesperson says that the company is still taking advanced orders, and has yet to experience the positive effects of the weakening yen. But, in fact, the export section is not taking advanced orders, and is assuming a wait-and-see attitude on the positive effects of the weak yen.

NEC has an export rate similar to Hitachi's 23 percent. Its 1989 export earnings approached 600 billion yen, outstripping imports of 107.9 billion yen (or $760 million at an exchange rate of 142 yen to the dollar.) From 1988 to 1989, the exchange rate weakened by 15 yen. It was determined by the accounting procedures that a depreciation of one yen meant a 1 billion yen increase in profits. In 1989, however, this led to an actual decrease in profits of 15 billion yen. Kazuhiko Akimoto, a managing director at NEC explains. "At NEC, since half of all orders are taken in advance as a hedge against currency fluctuations, this led to an exchange loss when the yen began to depreciate. Because of this, we hardly felt the benefits of a weak yen."

Effectiveness at reaping the benefits of the weak yen vary widely, largely depending on the skillful use of advanced ordering. However, in the case of Minolta and NEC, which have guidelines to take advanced orders on 50 percent of all exports, they have in place an effective weapon to offset the next high yen crisis. Many companies have enjoyed the benefits of the weak yen in moderation.

No Change in "Trade Friction" Policies

The drive for exports is on hold, as the trend towards localized production becomes irreversible. The weakening yen has raised new concern, that Japan will slowly reverse its drive toward global localization of manufacturing, and gradually gear up for a new export drive.

Domestic Demand Strong While Exports Show Signs of Weakness

In the automobile industry, which accounts for a majority of Japanese exports, the positive effects of the latest depreciation of the yen have been passed by. In order to enjoy the benefits, Japan's automakers would have to reverse the process toward localized overseas production in favor of a renewed onslaught of exports from Japan. However, they are clearly not willing to face international criticism of such a move.

Several automakers still export 40-60 percent of their output. However, during the years in which they were under the influence of a strong yen, these manufacturers were able to reduce the cost of purchasing components and materials. However, with the recent reversal in the exchange rate, it is impossible for automakers to enjoy the benefits of the weak yen because of the necessity to expand component imports in accordance with government policy. The reaction of Hiroshi Matsuda, Director of Research at Honda, is typical of the industry. "It would be great if we could take advantage of even half of the benefits of the weak yen."

Because of the heated competition of the past 1-2 years, rapid inflation in the cost of sales promotion has led to pressure on management at U.S. sales subsidiaries. The weak yen will end the erosion of sales earnings in the United States, and is sure to give automakers some breathing space. However, the weak yen will not result in a renewed export drive from Japan.

The number of Japanese cars produced locally in America has already reached 1 million units a year. Japanese automakers still have their sights set on local production of 2 million units annually by 1992, and this goal is not likely to change. In addition, there is the possibility of a bracing shock of cold water from high interest rates, low stock values, and a boom in the luxury car market. These could offset a continuation in strong domestic demand for cars.

A spokesperson at Nissan, however, is optimistic. "Despite some minor obstacles, domestic demand should remain very strong. Even over the intermediate term, the registration of new cars should continue at the high rate of 5.8 to 6 million units." Honda's Matsuda is also confident. "Recently interest rates on consumer loans have risen, and there is a possibility that demand will begin to slow in the fall, but the underlying forces of expansion haven't been shaken."

Localized Production Reaches the Point of No Return

Kakuo Sano, Manager of the President's Office at Sony, maintains that his company does not intend to gear up for an export drive, despite the weak yen. Sony does not intend to reverse its "global localization" strategy of locating production facilities in all major markets worldwide. Overseas production at Sony accounts for about 30 percent of its overall total. Mr. Sano indicated that three years ago overseas production accounted for only 20 percent of the total. Three years from now, the company hopes plans on increasing this amount to 40 percent of the total.

Matsushita Electronics is also rapidly carrying out a shift overseas. Masahiro Sano, manager of finances at Matsushita, says even though the yen is weakening, the company doesn't plan to slow down the pace of localization. Matsushita Electronics produced $4.5 million in overseas goods in 1988. In 1989, it manufactured an estimated $5.3 million worth of goods abroad, and it plans an increase. Matsushita's official stance is that overseas expansion was made under pressure to reduce "trade friction." The company intends to continue the shift to localized production in order to avoid inciting another round of trade friction over a weak-yen renewal in that export drive.

Hitachi also plans to continue to carry out a shift to localized production as planned, despite the depreciation of the yen. Currently, overseas production accounts for 5 percent of overall production from a consolidated base. This will increase to a 10 percent level. If these goods are produced in dollars and sold in dollars, the weak yen has no effect.

Minolta is stepping up production of cameras in West Germany and photocopier supplies in the U.S. In addition, the company plans to be manufacturing photocopiers and photocopier supplies in France by 1991. In the European Community, Minolta continues to develop and expand its sales network for office equipment. Managing Director Seiichi Wazu explains his company's policy. "In addition to the cost-saving production of products in Southeast Asia, we are also expanding production in large consumer markets, like North America and Europe, in order to lessen trade friction and to capture markets. We have not considered any changes in the overall direction of these policies."

However, to carry out these plans there is investment in plant and equipment. "At Minolta, when the yen appreciated to 120 yen to the dollar, it made sense to establish localized production in the U.S. When the yen rose past the 130 level, exports from Japan made more sense." These words from Managing Director Toyo Otate express the real sentiments of those in the export business.

However, Japan has already reached the point of no return and cannot reverse the course of investment in overseas production. NEC director Akimoto said "it is important that our company maintain a strategy of producing significant products at significant overseas plants." It appears that such plans will remain unchanged even with the weak yen.

Highs and Lows in Finance Stopped

Surpluses From Period of High Stock Prices Supply Investment Capital

Big business went into a period of highs and lows after stock prices crashed. NEC held 8,000 shares of stock in the old Nippon Telephone and Telegraph family of companies. As director Akimoto relates regretfully, "at the time of the crash, NTT shares went pale for a period at 1.06 million yen. At the end of March 1989, the price of a single share of NTT stock traded at 1.55 million yen. Had NEC cashed in at 1.06 million yen when stock prices were at their lowest, the company would have lost 4 billion yen as of this March. Fortunately, as the price of NTT shares had recovered to 1.16 yen by the end of March, losses only amounted to 3.1 billion yen—which was painful enough. This, of course, does not include losses from the other stock NEC was holding."

Interruption in Supply Divided into Winners and Losers

With the stock market crash, some companies were forced to stop equity financing and some were able to continue. Among the companies that reached safety was Matsushita Electronics. On 26 February, Matsushita decided to go ahead with a $1 billion issue of warrant bonds. At the same time, a financial subsidiary, Dutch Panasonic Finance, issued $300 million worth of standard company bonds. It is said that this is the first time such a financing technique was used by a Japanese company. While stock prices were weak across the board, the company overcame the spread of a false report that it was postponing the issue of stock, went ahead with the issue at a risky time, and currently has $1.3 billion in investment capital in hand.

An example of a sad case is Sumitomo Metals. The company planned to issue 300 billion yen in warrant bonds in March, both overseas and domestically. It was eventually forced to abandon its plans. The redemption of Sumitomo Metal's investment capital in plant and equipment exceeded 120 billion yen for 1990. It had to issue warrant bonds, but found no takers.

In comparison, the new Nippon Steel continued large-scale preservation of its stock through 1988 and January 1990, succeeding in getting equity financing totaling of 800 billion yen. Vice President Takashi Imai explains. "From the start of 1988, there was large-scale stock speculation on the stock exchange. At the same time, our composite business plan was announced and impelemented. The market reacted favorably, and we were able to secure financing. Right now, stock prices have plunged, and investors are troubled, but solid earnings from the composite business and steel are gradually coming in. I think that it won't be long before stock prices rebound."

Backing up this confidence is the blast furnace business, which is first on the list at the New Nippon Steel. With redeemed bonds and earnings (cash flow), the company has the wherewithal to allocate investment capital for new equipment and new business ventures. By repaying all of its 800 billion yen in loans which it had procured, it can complete its plans for capital investment in plant and equipment without concerning itself with fluctuations in stock prices.

Accordingly, Mr. Imai said, "If stock prices stabilize on the Dow at 30,000 yen, the cost of procuring funds in the capital markets will still be cheap. So long as stock prices are stable, we can obtain financing."

Investment Plans for Plant and Equipment Remain Unchanged

A spokesperson at the office of the president at Hitachi said, "We have been able to procure investment capital, because when stock prices were high and interest rates low, we issued domestic convertible corporate bonds. We also have in-company cash reserves. Even with weak stock prices and high interest rates, our investment plans for plant and equipment are unaffected." Hitachi plans to expand the amount of investment in plant and equipment to 300 billion yen for the period ending March 1991, up 15 percent. This includes equipment investments in the next generation of the 4-megabyte DRAM [dynamic random access memory] chip, and capital to upgrade computer terminals at a plant which makes home electronics and industrial electronics. In addition, the company plans to modernize housing for its employees.

In a climate of favorable domestic demand and labor shortages, Nissan also plans large-scale investment in plant and equipment. Nissan plans to exceed the amount of its domestic investment in 1989, which amounted to 168 billion yen. In 1990, the company will spend more on investment than at any other time in its history—250 billion yen. This investment will go for equipment to manufacture new products, as well as towards rationalization and streamlining projects. While its latest car models have been very popular with car buyers, production could not keep up with demand because of the shortage of skilled labor. The company has made investment in rationalization a top priority because of a drop in market share in a number of markets.

In order to do this, Kenei Yasutano, general manager of finance at Nissan, says the company has had to procure equity financing. "The rise in interest rates on warrant and convertible bonds has been a heavy blow, but with mid-term and long-term interest rates hovering around 3-5 percent, it has been able to procure financing without any serious problems. Recovery in fallen stock prices is a certainty, and we should be able to procure some kind of equity financing this year."

Investment capital can be raised today without concern over low stock prices and high interest rates. This is the same for companies which need capital to survive, such as Nippon Oil.

Because of the deregulation of service station construction, competition to purchase land for new service stations, and the massive overhaul of existing stations, has begun. No company can afford to lose out. Fortunately, Nippon Oil secured 210 billion yen last December from domestic convertible bonds and dollar-denominated warrant bonds. Furthermore, the company should face no real hurdles in raising another 52 billion yen in investment capital this year.

Tokyo Electric Power [TEP] is facing hurdles. Demand for electric power has increased, and development of power sources and construction of power-transmission lines has lagged behind demand. Because of this, it cannot assure a sure supply of electricity to customers.

The company is seeking 1.35 trillion yen for investment in plant and equipment—an overall increase of 16 percent. Tokyo Electric Power planned to obtain one-quarter of this total from equity financing. However, Kosui Fukushima, managing director of Accounting at TEP, appeared disappointed. "Looking at the loan flotation environment and stock prices, I'm not so confident."

Companies With a Lot of Working Assets Are Also Afloat

Special Funds Are Depressed as Shift to Fixed Interest-Bearing Securities Continues.

Table 4 shows how companies with a lot of investment assets are faring with the mixture of the demerits of low stock prices and the merits of high interest rates. A good example of such companies is Hanwa Kogyo, which has the largest amount of investment assets in Japan, and its president, Shigeru Kita. "With the stock market plunge, off-the-book earnings from stock holdings skyrocketed to over 40 billion yen. In addition to this, we had another latent 100 billion yen. Because the stock has been protected all along by banks cross-holding shares, even when prices fell we were not worried. If they let go of it, it will rise still further!"

With Hanwa Kogyo's confidence in stock prices, the stock has maintained its value despite the market plunge. Over the past seven years, Hanwa has been able to secure financing 19 times primarily through warrant bonds. President Kita says "we use a basic principle which says that if your first issue increases by 50 percent, the next issue is set." Because Hanwa has been able to maintain this, it has gained tremendous confidence from investors, and the price of its shares has remained mysteriously constant.

In Japan, Hanwa is ranked third among corporate borrowers, including a CP [commercial paper] issue balance of 3 trillion yen. It would seem that the company would be in dire straits because of the rise in interest rates, but President Kita laughs. "We have plenty of company-owned capital (320 billion yen) and this has not been affected by steel sales. Rather, with the rise in interest rates, we have profited from our investments."

Hanwa's current CP procurement costs have risen to over 3 percent. Of the investment capital obtained with CP, expanding this spread by receiving long-term loans from banks is Hanwa's financial business. Mr. Kita says, "The long-term interest rates rise beyond the cost of CP procurement," making a rise in interest rates a plus. President Kita jokes that "the banks ought to be the ones worrying."

BIS Puts Domestic Banks in Shackles

It has been said that banks have been adversely effected by the negative impact of the triple low (weak yen, weak stock prices, and high interest rates). Zenko Matsumoto, general manager of Overall Planning at the Industrial Bank of Japan, has indicated that "the three big problems facing the banking community right now are internationalization, the shift to securities, and liberalization. Until recently, a strong yen, high stock prices, and low interest rates offset these three big problems. Now the reverse is true. The weak yen has worked against us in internationalization, weak stock prices have worked against us in the shift to securities, and high interest rates have made liberalization more difficult for us."

First, the effects of the weak yen. The large banks maintain 30-40 percent of their assets in foreign currency holdings. The depreciation of the yen has swelled overall assets in terms of the yen. A 20 percent drop in the value of the yen expands overall assets by 5 percent. At present, the rate of asset expansion at Japanese banks has grown to 10-15 percent. Add the effects of the depreciating yen, and this figure enlarges to 15-20 percent. The problem lies with BIS regulations on the rate of capitalization. According to these regulations, the percentage of capitalization as a denominator of overall assets cannot exceed 8 percent. This 8 percent can be comprised of capital holdings at 4 percent, and stock holdings.

With the drop in stock prices, the value of stock holdings has gone down, while there has been an undesired increase in capital holdings. However, with the rise in interest rates, in order for the rise in interest rates on deposits to surpass interest rates on loans, banks have had to narrow the interest spread between both of them. For banks which procure funds over the short-term but offer fixed long-term loans, the effect has been great. In addition, the rise in interest rates has made securities much cheaper, and has been a detriment to securities operations at banks. In other words, the earnings potential on another source of capital holding has been weakened. Banks which cannot maintain the 8 percent standard are shackled by BIS regulations. They cannot carry out the scaled-down equilibrium which invites expansion of overall assets. As always, this has occurred at banks which have curtailed their overseas operations. At Fuji Bank, a spokesperson for the general planning group said, "We are shifting to assets with a higher return, within the confines of manageable risk." Banks avoid high risk financing of heavy national debts or loans to public organizations with narrow interest spreads, in favor of loans to private industry. To guard against this, Fuji Bank is strengthening its investigation network overseas.

Special Funds Depressed

At some point in time there will be a shift from volatile investments such as stocks and bonds, to fixed interest-bearing securities, on account of the weak yen.

Shinichiro Ohta, a managing director at the Mitsubishi Trading Company, says, "Because of high stock prices at the end of the year, we expected a sudden correction one of these days." About one-third of Mitsubishi Trade's overall assets are working assets, totaling 2.4 trillion yen. It didn't attach great importance to equity in the past, but at the time of the market peak in November of last year the company liquidated capital assets, including stock totaling 200 billion yen.

Sony's Sano calmly echoed this assessment. "This latest drop in stock prices normalized the securities market. Only those stocks which were overvalued fell. The market will return to normal speculation based on business results." In the case of Sony, its remaining investments have been based all along on the safe operation of fixed-interest. Of its 320 billion yen cash on hand at the end of September 1989, special funds barely comprised 6.7 billion yen. Moreover, the majority was essentially non-debt. Of course, with high interest rates this was a plus.

However, Sony worries about the rise in interest rates overseas. As of the end of 1989, Sony's overseas subsidiaries on a consolidated basis had borrowed 963 billion yen in short-term loans. Of the approxiamtely 500 billion yen in short-term loans Sony borrowed to purchase Columbia Pictures, the company will repay 400 billion yen in February, but 560 billion yen in short-term loans remain. Because a majority of this was procured overseas, the rise in overseas interest rates has been especially painful.

At industrial companies, the general trend is towards a reduction in special funds including stock. Nissan's manager of finances, Yasutano, says "At the end of March 1989, we had less than 40 billion yen in special funds, and this total had dropped to 27 billion yen by the end of March 1990." The manager of finances at Matsushita Electronics, Sano, says that "by getting out of agreements we have been able to reduce special funds. In a way this has taken the form of a naturally decreasing supplement to other investments."

The effect of the weak yen and high interest rates have worried companies like Hitachi. "Investment in plant and equipment might drop at small- to mid-sized companies. It might also adversely effect the attitudes of consumers." On the other hand, people like the Nippon Steel's new vice president, Imai, are confident. "Irrespective of whether or not stock prices worsen, if we touch bottom now, I don't think that there will be any ill-effects on personal consumption or private investment. The mental state of industrialists will be slightly cooled, but the overall business climate is still favorable."

In response to administration attempts to limit financing through the Ministry of Finance, a spokesperson at a large company says "Companies themselves should decide whether or not to stop financing. If stock prices fall, depressing business results, that should be enough to hinder refinancing." However, few other companies have taken such a critical stance.

The Weak Yen Has Led to Ill Feelings

Comments by Tadashi Ito, president of the Sumitomo Trading Company

Stock prices have recently taken a big plunge. With interest rates climbing somewhat, the depreciating yen has led to some ill feelings. A further depreciation of the yen will cause interest rates to rise further. This, in turn, will depress stock prices even more. Weak stock prices, high interest rates, and a weak yen: this is not the direction in which trading companies would like to see things go. However, this will not immediately have a big effect on the performance of Sumitomo Trading. For example, we were able to anticipate the current scenario of 160 yen to the dollar, and we have already taken measures to offset the ill effects of this exchange rate.

Despite higher interest rates, the company's financial earnings and expenses are in the black, and interest rates haven't been a burden to inventory. One year ago, several increases in interest rates but a burden on the financing we had actively worked out.

We were able to increase guarantees to clients on assets through rising land prices and high stock prices. We also had no cases of bad credit at all. You could say this rise in interest rates lit a warning signal and resulted in various managerial actions.

However, I think that high stock prices and high land prices were somewhat unrepresentative of the actual state of the economy, and a market correction was in order. Even though the money game is diminishing, money for investment in plant and equipment has been cramped.

Economic liberalization and deregulation are again the subjects of the U.S.-Japan Structural Impediments Initiative [SII] talks. Trading companies have been protected all along from outside competition. In a sense, we are in a profitable position for the arrival of market liberalization.

Capital Planning and Investment in Plant and Equipment Remain Unchanged

Comments by Takashi Imai, Nippon Steel Vice President

The confusion in the capital markets has not affected management. We procured 800 billion yen in capital from domestic and foreign sources through January of this year, and we are fortunate that we are set for the time being. If we had borrowed this amount of money at a 6 percent interest rate, we would be burdened by 50 billion yen, and this would have had a huge impact on earnings. The financial balance was in the red 12 billion yen during the peak, but this improved to 50 billion yen in 1989. However, even with new mid-term totals in 1991, financial improvement will be a central concern. We are aiming for a financial balance of zero by 1993. To do this, we must reduce loans to the 300 billion yen level. If the market plunges, we will of course have to refinance. An example of a difficulty we could face with procuring funds is that we would have to constrict overall assets in order to improve finances, but we could do it.

In 1988, investment in plant and equipment totaled 125 billion yen. This continued in 1989 with an outlay of 150 billion yen. In 1990, we intend to allocate 170 billion yen—a 17 percent increase. These plans will not change. A cash flow of 220 billion yen withheld from profits and premiums should not be a problem. Internal rationalization and streamlining, as well as price increases in such things as steel plates for automotive use, are unavoidable.

Demand for steel should remain constant. Demand for construction and equipment capital is strong, and I also believe that the adverse effect on assets will not affect consumption. With the weak yen, the plus of exports balances out the minus of importing more expensive raw materials. Even if the exchange rate rises another 10 yen, it will mean an added 5 billion yen this year, and this will offset the essential burden of higher interest rates, which totals 3 billion yen.

Table 1 Companies With High Percentages of Export Earnings

Rank	Company Name	Export Percent
1.	Uniden 21	98.5
2.	Uniden	96.4
3.	Akai Electronics	83.4
4.	Crown	79.8
5.	Takakita	78.8
6.	Nakamichi	75.8
7.	Miroc	75.8
8.	Minolta Camera	75.1
9.	Konami	74.8
10.	Cannon	74.1
11.	Nintendo	73.9
12.	Star Precision	73.8
13.	Kobe Motor	71.6
14.	Matsushita Microelectronics	70.6
15.	TEAC	68.2
16.	Citizen	65.3
17.	NEC	65.2
18.	Brother	64.3
19.	Four Star Electronics	64.3
20.	Aiwa	64.2
21.	Mabuchi Motor	62.7
22.	Mazda	62.5
23.	Nippon Machine	62.1
24.	Honda	61.8
25.	Olympus	61.4
26.	Shimano Industries	60.6
27.	Sony	60.5
28.	Asahi Optics	59.4
29.	Tsuda Koma Industries	58.9
30.	Yamaha Motors	57.2
31.	Orient Watches	57.1
32.	Nippon Gas	55.8
33.	Nippon Special Ceramics	55.8
34.	Casio	54.9
35.	Alpine	54.4
36.	Kenwood	53.2
37.	Kyushu Matsushita Electronics	51.2
38.	Kyoritsu	50.4
39.	SAC	50.2
40.	Sugai Chemical	50.5
41.	Mitsubishi Motors	48.4
42.	JUKI	48.3
43.	Sharp	47.7
44.	JVC	47.2
45.	Fuji Machinery	46.8
46.	Suzuki Motors	46.5
47.	Sega Enterprises	45.8
48.	Minebea	45.2
49.	Sansui Electronics	45.2
50.	Kyocera	45.2

Table 2 Companies With High Percentage of Long and Short-Term Loans

Rank	Company Name	Loans (Billion Yen)
1.	Tokyo Electric Power	4,641.7
2.	Mitsubishi Trading	4,435.2
3.	Hanwa Industries	4,242.0
4.	Orient Corp.	3,311.5
5.	Marubeni	2,929.8
6.	Oryx	2,538.3
7.	Mitsui Trading	2,535.1
8.	Itochu Trading	2,530.3
9.	Kansai Electric Power	2,071.3
10.	Nippon Housing Finance	1,859.9
11.	Sumitomo Trading	1,789.3
12.	Nippon Shinpan	1,747.5
13.	Chubu Electric Power	1,417.1
14.	Nissho Iwai	1,398.0
15.	Nichiboshin	1,391.6
16.	Kyushu Electric Power	1,267.3
17.	Daishinpan	952.7
18.	Chugoku Electric Power	904.6
19.	Tomen	898.0
20.	Diamond Lease	878.3
21.	Tohoku Electric Power	842.3
22.	Jusho Lease	825.7
23.	Central Lease	796.1
24.	Daikyo	789.3
25.	Life	774.4
26.	Central Finance	767.8
27.	Mitsui Real Estate	751.4
28.	Nichimen	751.0
29.	New Nippon Steel	750.0
30.	JAX	689.2
31.	NTT	689.0
32.	Kencho	683.2
33.	NKK	669.4
34.	Cosmo Petroleum	667.4
35.	Nippon Securities	625.7
36.	Hokkaido Electric Power	618.3
37.	Sumitomo Metal	579.3
38.	Kawaskai Steel	538.5
39.	Nissan Motors	509.8
40.	Kobe Steel	433.5
41.	Mitsubishi Heavy Industries	411.0
42.	Tokyo Express Rail	394.3
43.	Mitsubishi Motors	392.3
44.	Shikoku Electric Power	373.1
45.	Sumitomo Real Estate	359.7
46.	Hokuritsu Electric Power	348.3
47.	Kyushu Lease Service	333.3
48.	Nippon Mining	327.8
49.	Daishowa paper	326.3
50.	Kawasaki Heavy Industries	322.9

Table 3 Companies With High Financial Earnings Ratios

Rank	Company Name	Percent of Earnings
1.	Silver Precision	1,200.00
2.	Taiheiyo Marine Transport	413.51
3.	Tokai Travel	284.78
4.	Nakayo Telecommunications	171.92
5.	Y.E. Data	158.33
6.	Nippon Electric Construction	136.51
7.	Nippon Oil	104.14
8.	Nakamichi	92.69
9.	Hitachi Home Electronics	89.56
10.	Tsukishima Machinery	88.28
11.	Renown	78.47
12.	Toei Chemical	77.50
13.	Nippon Sugar	76.98
14.	Mihiro Foods	76.47
15.	Asahi Beer	76.04
16.	Nakamura-ya	75.00
17.	Tohoku Telecom Construction	74.46
18.	Fuji Heavy Industries	71.56
19.	Rokko Butter	68.10
20.	Imperial Telecom	65.19
21.	Yokogawa Bridge Construction	59.47
22.	Brother Sales Company	58.67
23.	Hanshin Department Stores	57.68
24.	Chugai Furnace	57.61
25.	Mutoh	56.79
26.	Gunei Chemical	56.39
27.	Meisei Foods	55.57
28.	Hanwa Industries	54.53
29.	Intec	52.37
30.	Nippon Servo	52.30
31.	Komatsu Zenoa	51.91
32.	Chugai Mining	51.88

Table 3 Companies With High Financial Earnings Ratios (Continued)

Rank	Company Name	Percent of Earnings
33.	Morita Pump	49.14
34.	Hankyu Department Stores	48.61
35.	Ajinomoto	48.41
36.	Okamura Group	48.22
37.	Nochida Construction	48.12
38.	Kumiai Chemical	47.37
39.	Tsukiji Fish Market	46.87
40.	Uni-charm	46.81
41.	Nittsu Construction	46.08
42.	Nikken Chemical	45.43
43.	Sanyo Electronics	44.75
44.	Kirin Beer	43.95
45.	Taiyo Yuden	42.99
46.	Komatsu	42.66
47.	Daihatsu	42.38
48.	Meito Industries	42.02
49.	Rhythm Watches	41.80
50.	Hitachi Information Systems	41.11

Table 4 Companies With High Working Assets

Rank	Company Name	Assets (Billion Yen)*
1.	Hanwa Industries	3,602.5
2.	Nippon Securities	3,072.2
3.	Mitsubishi Trading	2,340.6
4.	Toyota Motors	1,522.1
5.	Sumitomo Trading	1,401.4
6.	Marubeni	1,354.6
7.	Hitachi	1,190.2
8.	Mitsui Trading	1,158.9
9.	Matsushita Electronics	968.5
10.	Osaka Securities	895.8
11.	Itochu Trading	713.5
12.	Nissan Motors	702.4
13.	Nippon Oil	664.2
14.	Mitsubishi Heavy Industries	658.8
15.	Nisho Iwai	650.5
16.	Sharp	594.6
17.	Orient Corp.	594.1
18.	New Nippon Steel	589.6
19.	Toshiba	548.7
20.	Mitsubishi Electronics	524.1
21.	Kirin Beer	442.6
22.	NEC	398.6
23.	Nippon Home Finance	389.5
24.	Tomen	384.8
25.	Tsumizu House	372.6
26.	Chubu Securities	365.3
27.	Sanyo Electronics	357.1
28.	Nippon Densai	353.9
29.	Matsushita Electronics	345.6
30.	Kanoshima Construction	343.8
31.	Cannon	330.3
32.	Mitsubishi Real Estate	327.0
33.	Japan Airlines	324.2
34.	Sony	320.0
35.	NTT	304.0
36.	Shimizu Construction	302.7
37.	Ohbayashi Group	300.5
38.	Kensho	287.7
39.	Fuji Film	284.2
40.	Sumitomo Metals	278.8
41.	Nichimen	277.2
42.	Mitsubishi Refining	275.3
43.	All Nippon Airways	254.1
44.	Daiwa House	252.9
45.	Asahi Beer	247.3
46.	Mazda	237.4
47.	Kawasaki Steel	222.1
48.	Fuji Heavy Industries	220.0
49.	Sanrio	217.1
50.	Nichiboshin	214.2

Notes: *1. Working Assets Equals Current Deposits and Securities

2. Includes the latest period for the settlement of accounts, through the end of 1990

Council of Ministers Presidium Meets

OW1906132390 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 0730 GMT 19 Jun 90—FOR OFFICIAL USE ONLY

[Text] Ulaanbaatar, 19 Jun (OANA-MONTSAME)—The Presidium of the MPR [Mongolian People's Republic] Council of Ministers has adopted a resolution on some measures to improve the registration of the population and information. A work on switching appropriate information to electronic computer and putting the documents in archives in good order is nearing the completion within the framework of ensuring the centralized automated registration of the civilian state of the population in the country. The resolution envisages the centralization of this work in future at the state centre of civilian registration and information under the chief board of militia, which is to function on self accounting.

The MPR Council of Ministers has also decided to reduce from 1991 the rent for central heating in state and cooperative dwelling houses, where more than fourth of the country's population live. It has been also decided to give the central house of Young Pioneers and school children, the Young Pioneers' "nairamda" (friendship) international camp and a number of cultural and educational centres to the authority of the Central Council of the Mongolian Young Pioneers' organization as the latter has become an independent organization.

West Urged Not To Shun Khmer Rouge Faction

PM1806103190 London THE INDEPENDENT in English 8 Jun 90 p 17—FOR OFFICIAL USE ONLY

[Terry McCarthy report: "Return of the Khmer Rouge"]

[Text] Since Vietnam withdrew its troops from Cambodia last September, Western governments have been trying to outshout each other in affirming their opposition to the return of the Khmer Rouge. They are wasting their breath. The Khmer Rouge will return to power in Cambodia.

At the latest round of Cambodian peace talks, held in Tokyo this week, the Khmer Rouge refused to sign a ceasefire agreement. It is formally allied with two non-communist factions, led respectively by former ruler Prince Sihanouk and former Prime Minister Son Sann, that are fighting against the Phnom Penh government the Vietnamese installed 11 years ago. Of the four Cambodian factions, the Khmer Rouge is the most cohesive and determined political force, and it has a growing rural support base.

Instead of shunning the Khmer Rouge, the West should play a constructive role and reach out to the jungle guerrillas and Maoist doctrinaires to entice them into the real world of humane politics. There is not much time.

The fundamental problem with the West's blanket condemnation of the Khmer Rouge is that Pol Pot's men enjoy considerable support among peasants in many parts of the Cambodian countryside. Over 80 percent of Cambodians live on the land, and many do not have particularly bad memories of the Khmer Rouge regime from 1975-1978, because it was the townspeople and merchant classes that were victimised.

Many peasants were probably quietly pleased to see the formerly privileged inhabitants of Phnom Penh breaking their backs in the rice paddies of the "Killing Fields". After all, the peasants had been doing the same thankless for for generations. In many cases, peaseants were given power over people they considered had exploited them under previous regimes.

Peasants generally keep their opinions to themselves, however, and when the refugees started arriving in Thailand in 1979 with their horror stories of Pol Pot's regime, it was mostly educated and articulate Cambodians from the cities who did the talking.

Since the Vietnamese invaded in 1979, the communist government they installed has consistently maintained that "Pol Potists" murdered 3 million Cambodians and are universally detested. This line was willingly accepted by journalists and aid workers from the West, whose exposure to the aftermath of the Khmer Rouge rule made them willing to believe the worst. It has prevented the West from making a realistic assessment.

The term "Pol Potists" was invented after the fact, because from 1975-1978 few Cambodians outside the secretive top echelon of the Khmer Rouge had heard of Pol Pot or knew who was running the country. Communications had been destroyed, and Phnom Penh had been emptied of its citizens.

The genocide issue was exploited to the full. Journalists visiting the provinces in the early 1980s were invariably met by local party officials who took them to see a mas grave, complete with painted pictures of babies having their heads smashed against trees and pregnant women being bayonetted to death.

More recently, a number of mass graves have been done up as macabre museums for visitors to inspect. Such atrocities undoubtedly took place, but by exaggerating their extent-most independent researchers put the number of dead at between 800,000 and 1 million-the authorities tried to convince outsiders that the whole country was implaccably against the Khmer Rouge.

Numerous interviews by THE INDEPENDENT with villagers, soldiers and local militiamen in the north, west and south of Cambodia over the past two years, however, suggest that the Khmer Rouge has considerable support in rural areas. This has allowed the guerrillas to infiltrate deeply into the country and kept them supplied with food, shelter and intelligence on the movements of Phnom Penh troops.

The Khmer Rouge are fanatical nationalists. Its leaders believe they have a sacred responsibility-which none of the other Cambodian factions are strong enough to perform-to protect the Khmer race from absorption by Vietnam to the east and Thailand to the west. They dream of the glories of the Khmer Empire, which peaked in the twelfth century with the building of the renowned Angkor Wat temple and stretched from nothern Malaysia to southern Vietnam.

For peasants, the Khmer rouge demonstrated its nationalism by fighting for 11 years against Cambodia's traditional enemies, the Vietnamese. The Khmer rouge political cadres tell villagers that Hun Sen, the prime minister in Phnom Penh, is a Vietnamese puppet and that their fight is not over.

Villagers admire them for their discipline and self-respect, two qualities that most spheres of Cambodian society lack. They are generally regarded as austere but honest, which distinguishes them from the corruption of the Phnom Penh government and the black-marketeering of the non-communist guerrillas. They also appear strong, an attribute much admired in Cambodia.

Western moral posturing on Cambodia obscures the real issue of the war. The Khmer Rouge and the Phnom Penh government are in a fight to the death. The outside powers most closely involved—the Chinese who are the Khmer Rouge, the Thais who give them sanctuary and deliver their arms, and the Vietnamese who support the Phnom Penh government - pay scant attention to moral issues. It is too late for a political settlement in Cambodia that does not give substantial power to the Khmer Rouge.

The West did nothing to get rid of the Khmer Rouge in 1979, when it arrived in tatters at the Thai border. Instead, it gave tacit support to the rebuilding of the Khmer Rouge army by China, because it suited the West-particularly the U.S.-to punish Vietnam for its invasion. For the past 11 years, the West has supported the claims of Democratic Kampuchea, the three-party resistance coalition dominated by the Khmer Rouge, to the Cambodian seat in the United Nations.

At the same time, Western governments have guiltily kept their distance from Khmer Rouge diplomats-the U.S. State Department forbids American diplomats from even shaking hands with Khmer Rouge officials. The Khmer Rouge thrived in this diplomatic vacuum, and with Chinese military support it has quietly and methodically planned its strategy to retake power in Cambodia.

Not only has the West done nothing to stop this, but it also does not understand why it is happening. A small number of Western intelligence experts in Bangkok are beginning to report-much to the embarrassment of their superiors-that the Khmer Rouge army is well-disciplined and not made up of forced conscripts, and that even if China cut off its arms supplies it would not disappear.

Yet the West is not entirely powerless and could make a positive contribution to the future of Cambodia. Although the Khmer Rouge understands guerrilla warfare better than anyone, it has little experience of politics, civilian administration or the provision of education and health services. It knows it cannot revert to its old revolutionary strategy of emptying the cities and persecuting anyone who does not come from a peasant family.

That would enable Vietnam to invade again, without international condemnation. Khieu Samphan, who represents the Khmer Rouge at international conferences, says it now accepts the principles of democracy and a market economy. There is no evidence, however, that Khmer Rouge cadres, cut off for years in the jungle, have the faintest idea of what either concept means.

Already Western aid is being funnelled through the United Nations to Khmer Rouge refugee camps along the Thai border. This aid should be increased, particularly for education and preventative health care.

Khmer Rouge leaders have been reluctant to allow civilians under their control to be exposed to the benefits of Western medicine. In the past year, however, it has allowed some civilians in secret camps to go to Western-run hospitals for treatment of malaria, polio and other diseases that traditional Khmer medicine cannot treat.

Thailand has prevented aid organisations from providing education beyond primary level in the refugee camps. This ban should be lifted and qualified teachers allowed to work in the camps to show the Khmer Rouge how the rest of the world functions.

The West should also demand more access to the Khmer Rouge camps, and to its leaders. It is time to face up to the fact that the Khmer Rouge embodies some deeply entrenched traits of the Cambodian people and cannot be made to disappear by some magical flourish of international diplomacy.

Apparent Changes in Nature of Khmer Rouge Noted

HK1506073790 Hong Kong FAR EASTERN ECONOMIC REVIEW in English Vol. 148, No. 25, 21 Jun 90 pp 30, 32—FOR OFFICIAL USE ONLY

[By James Pringle in Phum Dong, Cambodia]

[Text] Some middle-ranking Khmer Rouge cadres insist they be called Louk (Mister) instead of Mit (Comrade) as in the past. And they are just as likely to be wearing jeans as Chinese khaki uniforms. For the girls who porter arms, gone are the pudding bowl hairstyles of the past; their tresses are often long and flowing, and they may wear a Thai-made designer scarf instead of a kramaa, the traditional cotton garment that was once the hallmark of the Khmer Rouge. The girls say that when they are not working they like to watch video movies at a jungle base.

Off-duty Khmer Rouge resistance fighters lounge around in mauve T-shirts which bear the picture of a recent Thai Miss Universe. On a wall of a dormitory in Thmar Puok, 21 km inside Cambodia, there are pin-ups of Khmer Rouge girls in uniform, but framed against sunflowers. When there is a wedding in one of the Khmer Rouge villages in Phum Dong (Coconut Village), south of the Phnom Malai mountains, a Buddhist monk comes to officiate from Site 8, the principal Khmer Rouge civilian camp inside Thailand. Members of the Khmer Rouge here say most are Buddhists because, after all, Buddhism is the religion of Cambodia. Some, including soldiers, wear Buddhist amulets or religious tattoos.

They also say there are no forced marriages as in the days of Khmer Rouge rule in Phnom Penh from 1975 to late 1978. "We follow old traditions and often use a go-between to make the introduction," explains one Khmer Rouge cadre. "Then we light some incense and have a little ceremony." But he adds that some couples just begin living together "Thai-style." (In the old days any sexual contact between unmarried couples meant death.) This cadre is still wearing black sandals but, instead of being cut from an old tyre, they are labelled Benz.

The Khmer Rouge cadres sometimes talk about their leaders in a casual way. "Pol Pot was childless so his first wife, Khieu Ponnary, gave him permission to take a minor wife," a Khmer Rouge soldier on leave from the front says. Pol Pot married a 28-year-old woman called Sar, from a village not far from here, and the couple now have a child, aged three, he adds.

There is one thing all Khmer Rouge with a radio say they like to do at 9 p.m. each night—listen to the Khmer language service of the Voice of America. Tuning to foreign stations also meant death in Pol Pot's Cambodia. They also like to strum guitars and sing songs with an anti-Vietnamese theme. A few, of course, look just as they did of old, with unsmiling, dead-eyed stares and black rubber sandals; subjects like the chain of command and the whereabouts of the leadership are taboo. And the girls don't wear make-up yet.

"Of course I'm not a communist," says soldier Chhap. "Communism brought absolutely no benefit to Cambodia." Speaking after the close of the Tokyo talks on Cambodia, where the Khmer Rouge failed to sign a "self-restraint" document, the soldier adds: "Nobody wants to fight any more and we don't really fight other Cambodians." He is apparently forgetting current battles in Kompong Thom province. "We are quite good friends with the Heng Samrin soldiers. But we do fight the Vietnamese and we will continue to do so until we drive them out." Nearby AK47s are slung on nails and lethal plastic anti-personnel mines lie in a heap.

"Now there are no more communists (among the Khmer Rouge)" Son, a 30-year-old middle-ranking cadre says. Son wears that old hallmark of Khmer Rouge authority, two ballpoint pens, one a Parker, in the pocket of his Chinese-made khaki jacket. "If we were communists, it would mean we were on the side of the Vietnamese," he says. "Everybody wants to have peace and if there were no Vietnamese in Cambodia we would not fight. The people support us 80% or 90%. A few are on the side of the aggressors, but we call them Vietnamese, not Cambodians."

What about the ideology that seemed a mish-mash of Jean-Jacques Rousseau and a fanatical Maoism resembling that of the time of China's ill-fated Great Leap Forward? One rather Rousseau-esque message chalked on a door-frame notes: "Poverty is not a vice." Says Son: "Now we can plant rice, raise chickens and pigs and sell or barter them for new clothes."

What about the reported deaths of up to a million Cambodians in the period before the Vietnamese invasion of December 1978? Were serious mistakes made then? "I am not able to say because I was very young at the time," he replies. "But you cannot work in the way we did at that time. Then you could not talk to one another and nobody would look after the children. You needed permission to do this or that, and only if you followed the rules would you get food. It just didn't work and people just would not accept it again."

Son says he recently walked here from Takeo province south of Phnom Penh, where he had visited his wife, Thi, aged 26, who lives in a "liberated" village. The journey took him 17 days, whereas last year it was a two-month slog. How did he cross Cambodia's highways 3 and 4, controlled by Phnom Penh forces? "You just say the word and the Heng Samrin soldiers let us through," he says. "You could say that they are guarding the road for us." Are there really such live-and-let-live arrangements between the Khmer Rouge and Phnom Penh forces? Impossible to confirm, but it would be in the old Indochina tradition.

Indeed, there is growing movement of people between the Phnom Penh-controlled and Khmer Rouge zones. This correspondent, who crossed uninvited into three zones of Khmer Rouge control, met women who had walked from deep inside Cambodia to sell silk sarongs at the Thai border.

Is there really a fundamental change in Khmer rouge mentality? Is it all suddenly sweetness and light? Has Adam Smith triumphed over Rousseau, Marx and Mao even among the Khmer Rouge leadership, or is it only in the rank and file? And is it true even there?

The close-knit Khmer Rouge leadership of fewer than a dozen men and women, often linked in a web of family ties, gives little away. Cosmetically at least, there are changes but, as in China, these can be reversed. Cambodian resistance leader, Prince Norodom Sihanouk, who heads the coalition in which the Khmer Rouge is the largest faction, says he still does not trust his allies. And anyway, has the Khmer Rouge not forever forfeited the right to rule Cambodia again?